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

External Sector Performance Report for Jul-Oct FY21 (November-2020)

Balance of payments position improved during Jul-Oct FY21 as the first four months of the fiscal year witnessed current account surplus primarily due to increased inflow of workers' remittances. FDI witnessed net inflows whereas FPI and overall financial account witnessed slight net outflows.

Current Account Balance

The current account witnessed surplus of US$ 1,160 million, reflecting a 181.7% improvement compared to a deficit of US$ 1,419 million in the same period of FY20. Moreover, current account balance registered a change from deficit of 1.6 percent of GDP to surplus of 1.3 percent of GDP during the period under reference. The trade deficit widened by around 4 percent during Jul-Oct FY21 and stood around US$ 6,748 million compared to US$ 6,489 million in Jul-Oct FY20. Imports declined by 4 percent while exports declined by 10.3 percent during Jul-Oct FY21 compared to the same period of FY20. The surplus in current account during Jul-Oct FY21 is primarily attributable to inflow of workers' remittances (Table-1).

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

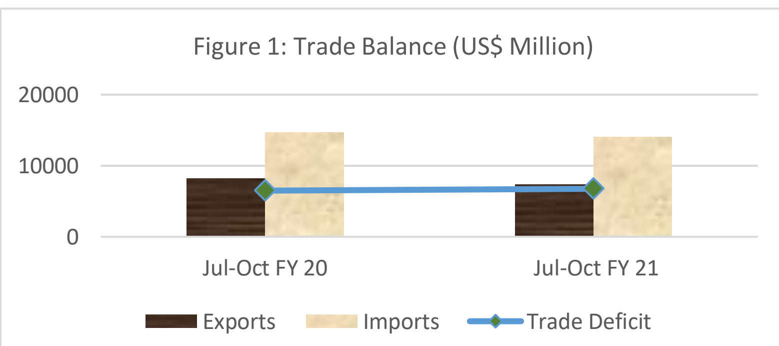
Items	October		% Change	Jul – Oct		% Change
	2019	2020		FY20	FY21	
1. Current Account Balance	**73**	**382**	**423.3**	**-1,419**	**1,160**	**181.7**
a. Balance on Trade in Goods	-1,441	-1,497	-3.9	-6,489	-6,748	-4
Exports of Goods (FOB)	2,189	1,969	-10.1	8,174	7,332	-10.3
Imports of Goods (FOB)	3,630	3,466	-4.5	14,663	14,080	-4
b. Balance on Trade in Services	-172	-239	-39	-1,270	-785	38.2
Exports of Services	540	404	-25.2	1,835	1,625	-11.4
Imports of Services	712	643	-9.7	3,105	2,410	-22.4
c. Balance on Primary Income	-590	-415	29.7	-2,014	-1,941	3.6
d. Balance on Secondary Income	2,276	2,533	11.3	8,354	10,634	27.3
Of which: Workers Remittances	2,001	2,284	14.1	7,453	9,431	26.5
2. Capital Account Balance	**37**	**15**	**-59.5**	**147**	**92**	**-37.4**

Items	October		% Change	Jul – Oct		% Change
	2019	2020		FY20	FY21	
3. Financial Account	**-247**	**592**	**-339.7**	**-2,242**	**1,336**	**-159.6**
Of which:						
a. Direct Investment	-127	-318	150.4	-628	-685	9.1
b. Portfolio Investment	-108	281	-360.2	-564	341	-160.5
General Government	28	-257	-1017.9	1,120	1,166	4.1
Disbursement	383	328	-14.4	3,391	2,183	-35.6
Amortization	358	596	66.5	2,283	2,039	-10.7
Reserves and Related Items	**152**	**-45**	**---**	**1,230**	**-220**	**---**
CAB (As % of GDP)	*0.3*	*1.6*	---	*-1.6*	*1.3*	---

Source: State Bank of Pakistan

a. Trade Account

Exports: The trade deficit widened by around 4 percent during Jul-Oct FY21 and stood at US$ 6,748 million compared to US$ 6,489 million in Jul-Oct FY20. This was mainly driven by decline in exports caused due to economic slowdown between the two corresponding periods. Exports witnessed a decline of 10.3 percent and stood at US$ 7,332 million during Jul-Oct FY21 compared to US$ 8,174 million in the corresponding period of last fiscal year. Although exports declined, a slight recovery from the negative impacts of Covid-19 is evident.



Source: State Bank of Pakistan

Exports receipts of all food and petroleum groups witnessed decline while other manufactures group and textile witnessed increase during the period. The price and quantum effects of selected export items shows mixed trends (Table 2).

Textile sector's exports receipts of value-added products like bed wear and readymade garments increased during the period due to increased prices; however, their export quantity declined. There is significant increase 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 textile sector's products.

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	10.5	-28.7	47.6	-181.9	-134.3
Fruits	-10.4	-1.2	-13.8	-1.6	-15.4
Cotton Yarn	-12	-32.5	-31.3	-125.9	-157.2
Cotton Cloth	20.4	-23.6	105.9	-159.9	-54
Knitwear	-5.3	18.6	-66.2	195.8	129.6
Bed wear	21.9	-9.8	161.6	-80.2	81.4
Readymade Garments	91.8	-45.4	453.4	-411.2	42.2
Footballs	9.6	-32	3.8	-18.4	-14.6
Leather Garments	-2.7	3.2	-2.8	3.2	0.4
Pharmaceutical Products	-0.5	22.9	-0.4	16.7	16.3
Cement	-15.6	32.5	-19.6	30.7	11.1

Source: Pakistan Bureau of Statistics

Imports

Imports declined from US$ 14,663 million in Jul-Oct FY20 to US$ 14,080 million during Jul-Oct FY21, showing 4 percent decrease. The import bill of few groups i.e. food, textile, agriculture & chemicals, metals and miscellaneous has started increasing. Some of the groups' imports bill declined which include transport, machinery and petroleum. The price and quantum effects of selected import items shows mixed trends (Table-3).

The imports maintained the declining trend as a result of completion of CPEC early harvest projects, depreciation of Pak Rupee against US Dollar, macroeconomic stabilization policy measures, slowdown in economic activity and low prices of commodities at international level especially international prices of crude oil. However, owing to economic recovery, imports are expected to pick up in coming months. Overall output of Large Scale Manufacturing (LSM) has increased by 7.65% for September, 2020 compared to September, 2019 and by 10.09% if compared to August 2020. There is need to tap the opportunity of demand shift from different countries facing lockdown towards Pakistan.

b. Services Account

The deficit in the trade of services declined by around 38 percent and stood at US$ 785 million during Jul-Oct FY21 compared to US$ 1270 million in the same period of FY20. Export of services declined by 11.4 percent and stood at US$ 1,625 million while imports of services declined by 22.4 percent to US$ 2,410 million during Jul-Oct FY21.

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	-8.1	43.9	-16.7	62.6	45.9
Palm oil	15.7	12.9	89.6	65.3	154.9
Pulses	0.3	15.9	0.5	24.7	25.2
Petroleum Products	-47.6	67.1	-1364	1149.8	-214.2
Petroleum Crude	-36.2	15.8	-497.9	187.9	-310
Raw Cotton	-11.8	605.7	-39	282.7	243.7
Synthetic Fiber	-31.9	96.4	-90.9	139.7	48.8
Synthetic & Artificial Silk Yarn	-29.6	67.1	-80.8	109.7	28.9
Fertilizer Manufactured	-10	-21.6	-25	-69	-94
Plastic Materials	-21.3	44	-189.9	272.4	82.5
Iron and Steel Scrap	-12.5	38.3	-92.1	203	110.9
Iron and Steel	-15	20.4	-92.2	104.1	11.9

Source: Pakistan Bureau of Statistics

Exports of transport, travel, construction, insurance & pension services, personal, cultural & recreational, maintenance & repair, financial & other business services registered a decline. However, exports of charges for the use of intellectual property, telecommunication, computer & information services increased in Jul-Oct FY21 as compared to Jul-Oct FY20.

Similarly, imports of maintenance & repair, personal, cultural & recreational services, financial and other business services, charges for the use of intellectual property, insurance & pension services, travel and transport declined whereas import of telecommunication, computer & information services increased in Jul-Oct FY21 as compared to Jul-Oct FY20.

Balance on Secondary Income - Remittances

Workers' remittances have provided much needed support to the economy over the last few decades. During Jul-Oct FY21, the inflow of remittances sustained positive growth. Workers' remittances recorded inflows of US$ 9,431 million during Jul-Oct FY21 compared to total receipts of US$ 7,454 million during the same period in the FY20. Thus it registered an increase of around 26.5 percent.

The increase in the remittance inflows may be attributable to supportive policy measures taken by the State Bank of Pakistan and the Government of Pakistan. Some of the policy measures include reducing the threshold for eligible transactions from US$ 200 to US$ 100 under the Reimbursement of Telegraphic Transfer (TT) Charges Scheme, Roshan Digital Account Initiative, an increased push towards adoption of digital channels, and targeted marketing campaigns to promote formal channels for sending remittances. Moreover, crackdown on informal channels of remittance sending in compliance of FATF action plan and closure of flight operations on account of Covid-19 may also have driven the shift towards formal channels of remittance sending. Moreover, workers may have sent more money home in order to help family members affected by Covid-19 pandemic or may have sent accumulated savings home fearing layoffs.

Foreign Direct Investment

Foreign Direct Investment, being Non-debt creating financial inflows, supports the balance of payments. Net foreign direct investment increased during Jul-Oct FY21 compared to corresponding period of last fiscal year. China was the major contributor and power sector attracted the larger share of inflows.

During Jul-Oct FY21, net FDI stood at US$ 733.1 million registering an increase of 9.1 percent compared to US$ 672 million recorded in the corresponding period last fiscal year. On month-on-month basis, net FDI increased by 67.9 percent to US$ 317.4 million in October 2020 over the US$ 189 million net inflows during September 2020. Net inflow of foreign direct investment during October 2020 exceeded the FY20 monthly average of US$ 213 million.

China replaced Norway, which was the major contributor in Jul-Oct FY20, during Jul-Oct FY21 and became the major contributor with US$ 332.3 million net inflows which contributed a share of 45.3 percent in total net FDI. Malta was the second largest contributor with 10.1 percent share. The other major contributors are Netherlands, Hong Kong and UK with shares of 7.0%, 6.3% and 5.0% respectively.

During Jul-Oct FY21, Power sector replaced the Communications sector, which attracted the largest share of net inflows in Jul-Oct FY20, with a share of 48.1% in total net FDI inflows. The other recipient sectors include financial business (16.2%), oil & gas exploration (11.3%), communications (7.4%) and electrical machinery (5%). Investment in power sector witnessed a net inflow of US$ 352.3 million during Jul-Oct FY21 compared to net inflow of US$ 52.6 million recorded in the corresponding period of FY20. In power sector, investment in coal registered net inflow of US$ 270.9 million.

Foreign Exchange Reserves and Exchange Rate:

The Average exchange rate during the month of October of FY21 remained at Rs. 162.8 per USD, compared to Rs. 155.9 during October of FY20, depicting a depreciation of Rupee by 4.2 percent. Despite net inflow of FDI, financial account witnessed outflows due to larger net acquisition of financial assets, lesser net liabilities and outflow of FPI. Year-on-year, net reserves with SBP increased by 48.8 percent and stood at US$ 12.2 billion by the end of October FY21 compared to US $ 8.2 billion at the end of October FY20.

Conclusions:

The overall external account improved during Jul-Oct FY21 primarily due to increased inflow of workers' remittances. FDI witnessed net inflows whereas FPI witnessed an outflow.

- Although global economic slowdown and smart lockdown policy at home contributed to the overall deterioration in the exports' performance, exports registered signs of recovery. Early opening up of the economy after the lockdown might have helped revive some of the export items which recorded a double-digit increase.
- The imports declined owing to a host of factors including the slow recovery, low prices of commodities at international level, completion of CPEC early harvest projects, depreciation of Pak Rupee against dollar to name a few. Proactive policy measures to boost exports are needed to help sustain the external sector stability.
- Inflow of remittances sustained positive growth despite global economic slowdown and layoffs. There is a need to look into the causes and explore and capitalize on the potential of further expansion in this sector.
- There is a need to keep a close eye on the situation in the GCC countries and any expected policy shift in medium to long run, and take policy measures for sustaining these inflows.
- FDI recorded significant net inflows primarily from China and in the power sector.