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

External Sector Performance Report for Jul-Aug FY21 (September-2020)

Balance of payments position has improved during Jul-Aug FY21. The first two months of the fiscal year witnessed current account surpluses due to increased inflow of workers' remittances and overall decline in the balance of trade due to sharp decline in imports. FDI rebounded whereas FPI and overall financial account witnessed slight outflows. Current account surplus resulted in net addition in SBP's liquid foreign exchange reserves.

Current Account Balance

The current account witnessed surplus of US$ 805 million, reflecting a 166 percent improvement during Jul-Aug FY21 compared to a deficit of US$ 1,214 million in the same period of FY20. Moreover, current account declined from -2.8 percent of GDP to 1.8 percent of GDP during the period under reference. The trade deficit considerably contracted by around 8.1 percent during Jul-Aug FY21 and stood around US$ 3,307 million compared to US$ 3,598 million in Jul-Aug FY20. There is decline of 12.6 percent of in imports compared to 16.6 percent decline in exports during Jul-Aug FY21 compared to same period last fiscal year. The surplus in current account deficit during Jul-Aug FY21 can be attributed to substantial decline in the deficit of trade in goods and services and better inflow of workers' remittances (Table-1).

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

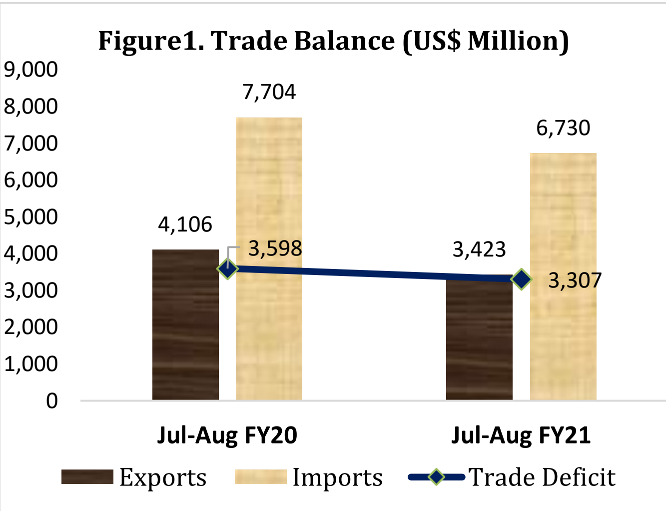
Items	August		% Change	Jul – Aug		% Change
	2019	2020		FY20	FY21	
1. Current Account Balance	**-601**	**297**	**149.4**	**-1,214**	**805**	**166.3**
a. Balance on Trade in Goods	-1,630	-1,649	-1.2	-3,598	-3,307	8.1
Exports of Goods (FOB)	1,889	1,526	-19.2	4,106	3,423	-16.6
Imports of Goods (FOB)	3,519	3,175	-9.8	7,704	6,730	-12.6
b. Balance on Trade in Services	-512	-102	80.1	-932	-462	50.4
Exports of Services	424	353	-16.7	884	758	-14.3
Imports of Services	936	455	-51.4	1,816	1,220	-32.8
c. Balance on Primary Income	-302	-322	-6.6	-867	-1,007	-16.1
d. Balance on Secondary Income	1,843	2,370	28.6	4,183	5,581	33.4
Of which: Workers Remittances	1,684	2,095	24.4	3,712	4,863	31.0
2. Capital Account Balance	**46**	**33**	**-28.3**	**87**	**38**	**-56.3**

Items	August		% Change	Jul – Aug		% Change
	2019	2020		FY20	FY21	
3. Financial Account	**-1,003**	**426**	**-142.5**	**-2,030**	**408**	**-120.1**
Of which:						
a. Direct Investment	-74	-63	-14.9	-131	-178	35.9
b. Portfolio Investment	-73	8	-111.0	-165	15	-109.1
General Government	749	142	-81.0	1,932	1,555	-19.5
Disbursement	953	416	-56.3	2,512	1,215	-51.6
Amortization	208	277	33.2	588	667	13.4
Reserves and Related Items	**540**	**7**	**---**	**1,291**	**248**	**---**
CAB (As % of GDP)	*-2.7*	*1.3*	---	*-2.8*	*1.8*	---

Source: State Bank of Pakistan

a. Trade Account

The trade deficit narrowed down by around 8 percent during Jul-Aug FY21 and stood at US$ 3,307 million compared to US$ 3,598 million in Jul-Aug FY20. This was mainly driven by decline in imports caused due to economic slowdown, lower commodity prices and depreciation of Rupee against US Dollar during the two corresponding periods.



Source: State Bank of Pakistan

Exports

Exports witnessed decline of 16.6 percent and stood at US$ 3,423 million during Jul-Aug FY21 compared to US$ 4,106 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, textile, petroleum and other manufacturer group witnessed decline 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 knitwear, 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 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	7.3	-30.6	17	-102	-85
Fruits	-5.1	-2.4	-4	-2	-6
Cotton Yarn	-14.8	-35.6	-20	-75	-95
Cotton Cloth	23.3	-26.4	56	-86	-30
Knitwear	19.0	-12.3	90	-66	24
Bed wear	17.7	-10.0	64	-40	24
Readymade Garments	86.6	-45.3	222	-212	10
Footballs	7.4	-29.4	1	-8	-7
Leather Garments	-0.9	0.3	0	2	1
Pharmaceutical Products	5.1	4.9	2	2	4
Cement	-18.4	3.2	-10	12	2

Source: Pakistan Bureau of Statistics

Overall output of Large Scale Manufacturing (LSM) has slightly rebounded during July 2020 both on month-on-month and year-on-year basis by 9.5 percent and 5.0 percent respectively. Because of gradual easing of lockdown and opening up of production in the country, growth in some of the sectors has turned into positive i.e. textile, food, pharmaceuticals 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 declined from US$ 7,704 million in Jul-Aug FY20 to US$ 6,730 million during Jul-Aug FY21, showing 12.6 percent decrease. The import bill of few groups i.e. food, machinery, textile and miscellaneous has started increasing. Some of the groups imports bill declined which include transport, petroleum, agri. & other chemicals and metal. 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 and growth in LSM, imports are expected to pick up in coming months.

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	-9.5	48.9	-9	32	23
Palm oil	11.4	42.7	36	95	131
Pulses	12.0	-19.1	9	-17	-8
Petroleum Products	-50.2	68.0	-757	610	-147
Petroleum Crude	-34.7	41.5	-235	199	-36
Raw Cotton	-14.8	316.7	-21	107	86
Synthetic Fiber	-34.4	44.2	-45	40	-5
Synthetic & Artificial Silk Yarn	-33.3	62.7	-39	46	6
Fertilizer Manufactured	5.4	11.5	4	8	12
Plastic Materials	-22.5	33.9	-96	108	12
Iron and Steel Scrap	-11.1	33.2	-38	85	47
Iron and Steel	-18.3	4.7	-50	12	-38

Source: Pakistan Bureau of Statistics

b. Services Account

Trade in services deficit declined by a massive 50.4 percent and stood at US$ 462 million during Jul-Aug FY21 compared to US$ 932 million in the same month last fiscal year. Export of services witnessed decline of 14.3 percent and stood at US$ 758 million while imports of services declined by 32.8 percent to US$ 1,220 million during Jul-Aug FY21.

There is decline in exports of transport, travel, construction, personal, cultural & recreational, financial & other business services. However, export of maintenance & repair, insurance & pension, charges for the use of intellectual property, telecommunication, computer & information services increased during the period.

Similarly, imports of maintenance & repair, transport, travel, construction, personal, cultural & recreational services, charges for the use of intellectual property, insurance & pension services declined whereas import of financial, telecommunication, computer & information, and other business services increased.

Balance on Secondary Income - Remittances

Workers remittances provides much needed support to the economy over the last few decades. During Jul-Aug FY21, the inflow of remittances sustained positive growth and stood above the total export receipts of the country during the period. Workers' remittances recorded inflows of US$ 4,863 million during Jul-Aug FY21 compared to total receipts of US$ 3,712 million during the same period in the FY20. Thus it registered an increase of around 31 percent.

The increase in the remittance inflows is attributable to Eid-ul-Adha related seasonal inflows as well as the supportive policy measures taken by the State Bank 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, an increased push towards adoption of digital channels, and targeted marketing campaigns to promote formal channels for sending remittances.

Foreign Direct Investment

Non-debt creating financial inflows, Foreign Direct Investment, supports the balance of payments. Net foreign direct investment rebounded during first two months of FY21 compared to significant decline during the corresponding period of FY20. Norway remained the major contributor while financial business sector attracted the larger share of inflows.

During Jul-Aug FY21, net FDI stood at US$ 178 million registering an increase of 35.9 percent compared to US$ 131 million recorded in Jul-Aug FY20. Month-on-month, net FDI decreased by 45.2 percent from US$ 115 million during July 2020 to US$ 63 million in August 2020. Net inflow of foreign direct investment during August 2020 remained below the FY20 monthly average of US$ 213 million.

Norway replaced Malta during Jul-Aug FY21 and became the major contributor with an investment of US$ 45 million (19.9 percent of total FDI). The share of Chinese investment, which was the major contributor during July 2020 with a share of 23.7 percent of total FDI, declined to 2.9 percent in the month of August. Netherlands remained the second largest contributor with 17.5 percent share. The other major contributors are Malta, United Kingdom and Hongkong with their shares of 16.3%, 8.2% and 6.9% respectively.

During Jul-Aug FY21, Financial Business sector attracted more inflows with the share of 37.7% in total FDI inflows whereas communications sector attracted more inflows last year. The other recipient sectors include communications (16.4%), electrical machinery (16.1%), oil & gas exploration (15.1%) and construction (2.9%). Investment in power sector witnessed a net inflow of US$ 5.5 million during Jul-Aug FY21 compared to the inflow of US$ 16 million recorded in the corresponding period of FY20. In power sector, investment in coal registered net outflow of US$ 22 million.

Foreign Exchange Reserves and Exchange Rate:

The Average exchange rate during the month of August of FY21 remained at Rs. 167.2, compared to Rs. 158.1 during August of FY20, depicting a depreciation of Rupee by 5.7

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. Current account surplus of US$ 805 million, capital inflows of US$ 38 million and Financial outflows of US$ 408 million resulted into addition of US$ 248 million in SBP's liquid foreign exchange reserves during Jul-Aug FY21. Year-on-year, net reserves with SBP increased by 53.9 percent and stood at US$ 12.7 billion by the end of August FY21 compared to US $ 8.2 billion at the end of August FY20.

Conclusions:

The overall external account improved during Jul-Aug FY21 primarily due to increased inflow of workers' remittances and overall decline in the balance of trade. FDI rebounded whereas FPI witnessed an outflow. 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, exports are showing signs of recovery. Some of major export items recorded double digit increase.
- Large Scale Manufacturing (LSM) is also showing the signs of improvement during the period under review owing to gradual easing of lockdown and opening up of industrial production. The industry needs to capitalize the opportunity of earlier recovery compared to some of the competitors.
- The imports declined owing to a host of factors including the economic slowdown, low prices of commodities at international level, completion of CPEC early harvest projects, depreciation of Pak Rupee against dollar to name the few.
- Although imports declined during the period but owing to economic recovery and growth in LSM, imports are expected to pick up in coming months. Therefore, proactive policy measures are needed for sustaining the external sector stability.
- Inflow of remittances sustained positive growth despite global economic slowdown and layoffs. They stood above the total export receipts of the country. However, 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 rebounded to record significant net inflows primarily from Norway and in financial business sector.
