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

External Sector Performance Report for Jul-Sep FY21 (October-2020)

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

Current Account Balance

The current account witnessed surplus of US$ 792 million, reflecting a 153.1% improvement compared to a deficit of US$ 1,492 million in the same period of FY20. Moreover, current account balance registered a change from deficit of 2.3 percent of GDP to surplus of 1.2 percent of GDP during the period under reference. The trade deficit widened by around 4.04 percent during Jul-Sep FY21 and stood around US$ 5,252 million compared to US$ 5,048 million in Jul-Sep FY20. Imports declined by 3.8 percent while exports declined by 10.5 percent during Jul-Sep FY21 compared to the same period of FY20. The surplus in current account during Jul-Sep FY21 is primarily attributable to inflow of workers' remittances (Table-1).

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

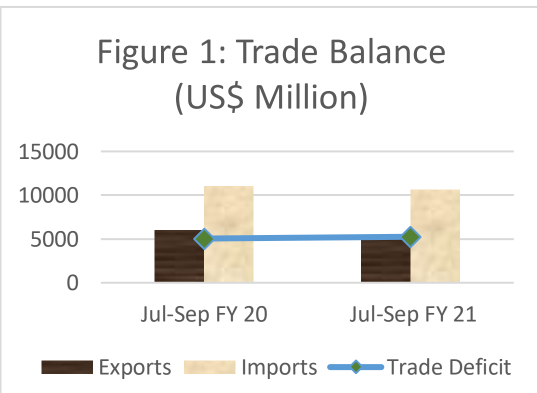
Items	September		% Change	Jul – Sep		% Change
	2019	2020		FY20	FY21	
1. Current Account Balance	**-278**	**73**	**126.3**	**-1,492**	**792**	**153.1**
a. Balance on Trade in Goods	-1,450	-1,867	-28.8	-5,048	-5,252	-4.04
Exports of Goods (FOB)	1,879	1,951	3.8	5,985	5,358	-10.5
Imports of Goods (FOB)	3,329	3,818	14.7	11,033	10,610	-3.8
b. Balance on Trade in Services	-166	-77	53.6	-1,098	-539	50.9
Exports of Services	411	463	12.7	1,295	1,225	-5.4
Imports of Services	577	540	-6.4	2,393	1,764	-26.3
c. Balance on Primary Income	-557	-519	6.8	-1,424	-1,526	-7.2
d. Balance on Secondary Income	1,895	2,536	33.8	6,078	8,109	33.4
Of which: Workers Remittances	1,740	2,284	31.3	5,452	7,147	31.1
2. Capital Account Balance	**23**	**39**	**69.6**	**110**	**77**	**-30**

Items	September		% Change	Jul – Sep		% Change
	2019	2020		FY20	FY21	
3. Financial Account	**35**	**510**	**-1357.1**	**-1,995**	**741**	**-137.1**
Of which:						
a. Direct Investment	-370	-189	-48.9	-501	-367	-26.7
b. Portfolio Investment	-291	45	-115.5	-456	60	-113.2
General Government	-840	-217	74.2	1,092	1,419	29.9
Disbursement	496	556	12.1	3,008	1,852	-38.4
Amortization	1,337	776	-42	1,925	1,443	-25.0
Reserves and Related Items	**-213**	**-423**	**---**	**1,078**	**-175**	**---**
CAB (As % of GDP)	*-1.2*	*0.3*	---	*-2.3*	*1.2*	---

Source: State Bank of Pakistan

a. Trade Account

Exports: The trade deficit widened by around 4 percent during Jul-Sep FY21 and stood at US$ 5,252 million compared to US$ 5,048 million in Jul-Sep FY20. This was mainly driven by decline in exports caused due to economic slowdown during the two corresponding periods.



Source: State Bank of Pakistan

Exports witnessed decline of 10.5 percent and stood at US$ 5,358 million during Jul-Sep FY21 compared to US$ 5,985 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, petroleum and other manufacturer group witnessed decline during the period while textile witnessed increase. 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 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	5.8	-27.7	19.8	-130.2	-110.4
Fruits	0.41	-16.3	0.38	-18	-17.6
Cotton Yarn	-13.9	-33.4	-27.6	-99.1	-126.7
Cotton Cloth	12.2	-18.5	49.8	-92.1	-42.3
Knitwear	18.8	-7.0	135.9	-54.4	81.5
Bed wear	22.2	-11.3	118.3	-67.8	50.5
Readymade Garments	90.5	-44.8	333.3	-298.3	35
Footballs	5.5	-26.9	1.7	-11.3	-9.6
Leather Garments	1.8	1.4	1.3	1.1	2.4
Pharmaceutical Products	7.6	14.0	4.8	7.8	12.6
Cement	-16.8	30.1	-14.6	20.1	5.5

Source: Pakistan Bureau of Statistics

Overall output of Large Scale Manufacturing (LSM) has increased by 1.19% for Aug, 2020 compared to Aug, 2019 and decreased by 6.78% if compared to July 2020. There is need to tap the opportunity of demand shift from different countries facing lockdown towards Pakistan.

Imports

Imports declined from US$ 11,033 million in Jul-Sep FY20 to US$ 10,610 million during Jul-Sep FY21, showing 3.8 percent decrease. The import bill of few groups i.e. food, machinery, textile, agriculture & chemicals, metals and miscellaneous has started increasing. Some of the groups' imports bill declined which include transport 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.

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	-8.2	51.3	-12.7	52.5	39.8
Palm oil	15.1	38.8	75.9	140.7	216.6
Pulses	5.05	8.5	6.5	10.1	16.6
Petroleum Products	-48.4	65.3	-1055.7	861.9	-193.8
Petroleum Crude	-35.3	30	-377.6	247	-130.6
Raw Cotton	-13.6	543.1	-32.6	203.3	170.7
Synthetic Fiber	-31.1	80.8	-64.2	92.2	28
Synthetic & Artificial Silk Yarn	-31.7	73.7	-65.2	87.3	22.1
Fertilizer Manufactured	-4.3	22.6	-6.8	28.8	22
Plastic Materials	-24.7	48.2	-170.4	224.1	53.7
Iron and Steel Scrap	-12.3	42.2	-67.8	164	96.2
Iron and Steel	-15.4	19.7	-68.5	73.1	4.6

Source: Pakistan Bureau of Statistics

b. Services Account

The deficit in the trade of services declined by around 51 percent and stood at US$ 539 million during Jul-Sep FY21 compared to US$ 1098 million in the same period of FY20. Export of services declined by 5.4 percent and stood at US$ 1,225 million while imports of services declined by 26.3 percent to US$ 1,764 million during Jul-Sep FY21.

Exports of transport, travel, personal, cultural & recreational, maintenance & repair, financial & other business services registered a decline. However, export of insurance & pension services, charges for the use of intellectual property, telecommunication, computer & information services and construction increased in August 2020 as compared to August 2019.

Similarly, imports of maintenance & repair, transport, travel, construction, personal, cultural & recreational services, financial and other business services, charges for the use of intellectual property, insurance & pension services declined whereas import of telecommunication, computer & information services increased in August 2020 as compared to August 2019.

Balance on Secondary Income - Remittances

Workers remittances provides much needed support to the economy over the last few decades. During Jul-Sep 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$ 7,147 million during Jul-Sep FY21 compared to total receipts of US$ 5,452 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 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

Foreign Direct Investment, being Non-debt creating financial inflows, supports the balance of payments. Net foreign direct investment declined during Jul-Sep 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-Sep FY21, net FDI stood at US$ 415.7 million registering a decrease of 23.8 percent compared to US$ 545.5 million recorded in the corresponding period last fiscal year. On month-on-month basis, net FDI increased by 68.8 percent to US$ 189 million in September 2020 over the US$ 112 million inflows during August 2020. Net inflow of foreign direct investment during September 2020 remained below the FY20 monthly average of US$ 213 million.

China replaced Norway during Jul-Sep FY21 and became the major contributor with an investment of US$ 103.6 million with 24.9 percent share in total FDI. Norway was the major contributor in Jul-Aug FY21; however, due to net outflows during September 2020, Norwegian investment share declined to 7.02 percent from 19.9 percent last month. Malta was the second largest contributor with 13.4 percent share. The other major contributors are Netherlands, Hongkong and Norway with shares of 11.8%, 9.2% and 7.02% respectively.

During Jul-Sep FY21, Power sector attracted more inflows with the share of 27.3% of total net FDI inflows whereas Financial Business sector attracted highest inflows during Jul-Aug FY 21. The other recipient sectors include financial business (24.7%), oil & gas exploration (16.2%), communications (9.02%) and electrical machinery (8.8%). Investment in power sector witnessed a net inflow of US$ 113.3 million during Jul-Sep FY21 compared to the net inflow of US$ 32.3 million recorded in the corresponding period of FY20. In power sector, investment in coal registered net inflow of US$ 48.5 million.

Foreign Exchange Reserves and Exchange Rate:

The Average exchange rate during the month of September of FY21 remained at Rs. 165.8, compared to Rs. 156.2 during September of FY20, depicting a depreciation of Rupee by 5.8 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 54.4 percent and stood at US$ 12.2 billion by the end of September FY21 compared to US $ 7.9 billion at the end of September FY20.

Conclusions:

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

- Although global economic slowdown and lockdown 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.

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