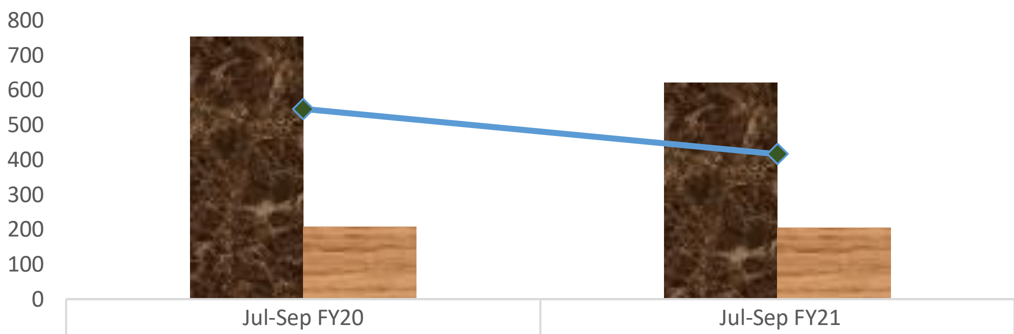
Government of Pakistan
Planning Commission
Ministry of Planning, Development and Special Initiatives
(International Trade & Finance Section)

Update on Foreign Direct Investment (FDI) for Jul-Sep FY21 (Oct-2020)

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.

Figure 1: Net Inflow/Outflow of FDI (US$ Million)



	Jul-Sep FY20	Jul-Sep FY21
Inflow	752.7	620.9
Outflow	207.2	205.3
Net FDI	545.5	415.7

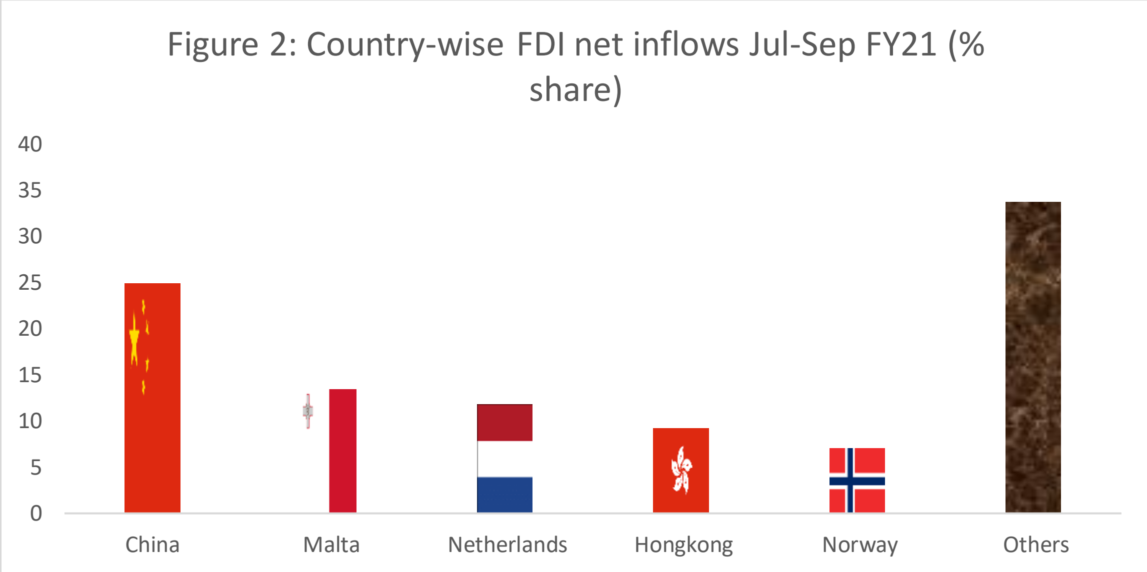
Inflow Outflow Net FDI

Source: State Bank of Pakistan

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 (Figure 1). 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 however it remained below the level of US$ 383.5 million in September 2019. 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 US$ 103.6 million with 24.9 percent share in total FDI. Norway was the major contributor last month 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. However, U.A.E divested (net) by US$ 21.6 million. Percentage share of country wise FDI (net) inflows during Jul-Sep FY21 is given in figure 2.



Source: State Bank of Pakistan

During Jul-Sep FY21, Power sector replaced the Financial Business sector with the share of 27.3% of total net FDI inflows. 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. In transport and equipment (Automobile) sector, net investment inflows in cars recorded net inflows of US$ 0.3 million against US$ 8.2 million net inflows in the last year due to higher prices owing to depreciation of rupee against dollar, imposition of federal excise duty and lower sales in automobiles sector. Trade sector witnessed a net inflow of US$ 2.3 million during the period under review (Figure 3).

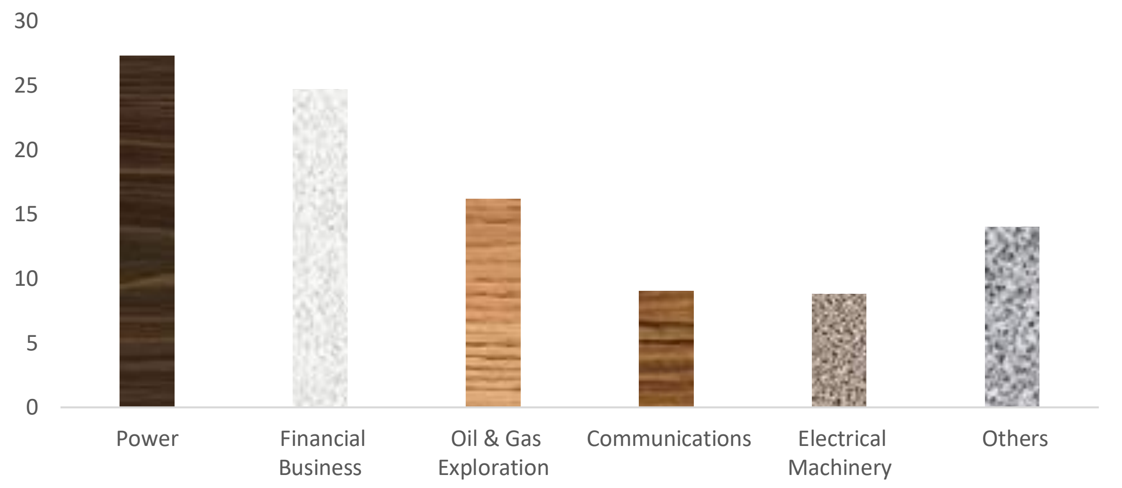
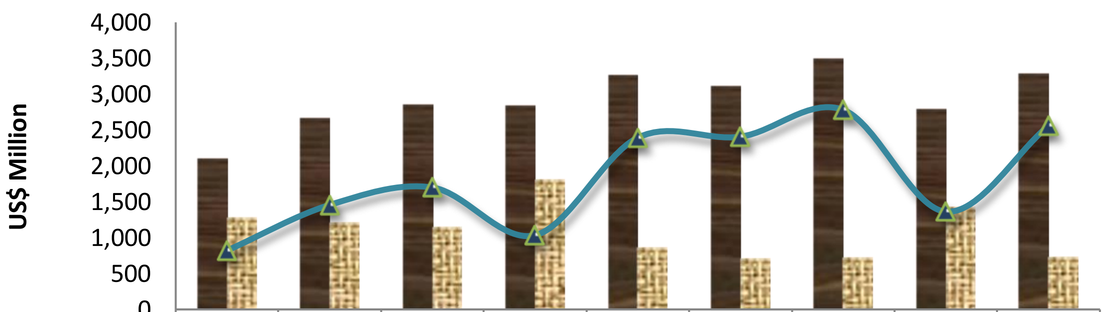


Figure 3: Sector Share (%) in FDI Jul-Sep FY 21

Source: State Bank of Pakistan

Foreign direct investment maintained upward trend since FY15 and increased from US$ 1,034 million to US$ 2,780 million in FY18. This rise can be attributed to higher inflows from China in early harvest projects under CPEC. After maintaining upward trend for consecutive three years, net FDI plunged in FY19 and rebounded during FY20. Historical position of the FDI is given below in figure 4.

Figure 4: FDI Historical Postion



	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Inflow	2,099	2,665	2,847	2,843	3,256	3,111	3,495	2,785	3,286
Outflow	1,278	1,209	1,149	1,809	863	704	714	1,423	725
net	821	1,456	1,699	1,034	2,393	2,407	2,780	1,362	2,561

Source: State Bank of Pakistan

Conclusion:

Foreign Direct Investment not only supports the balance of payments situation, but also brings in new technology and contributes in socio-economic development.

- FDI decreased by 23.8 percent during Jul-Sep FY21 in the backdrop of decreased net inflows from Norway, Malaysia, Turkey and other countries. Power Sector attracted major share of the inflows during the period.

- UNCTAD estimated 40 percent reduction in global investment due to COVID-19 which may be responsible for decrease in Pakistan's FDI.
- Board of Investment needs to facilitate the investors to attract foreign direct investment in export-oriented sectors (trade, textiles, agriculture, chemicals and tourism etc.) in order to enhance inflows.
