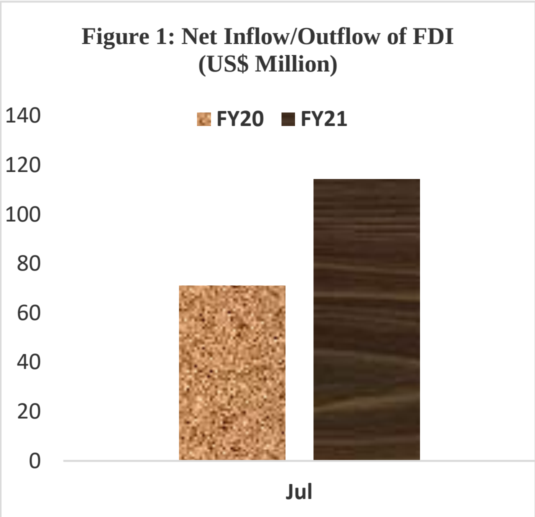
Government of Pakistan
Planning Commission
Ministry of Planning, Development and Special Initiatives
(International Trade & Finance Section)

Update on Foreign Direct Investment (FDI) for July FY21 (August-2020)

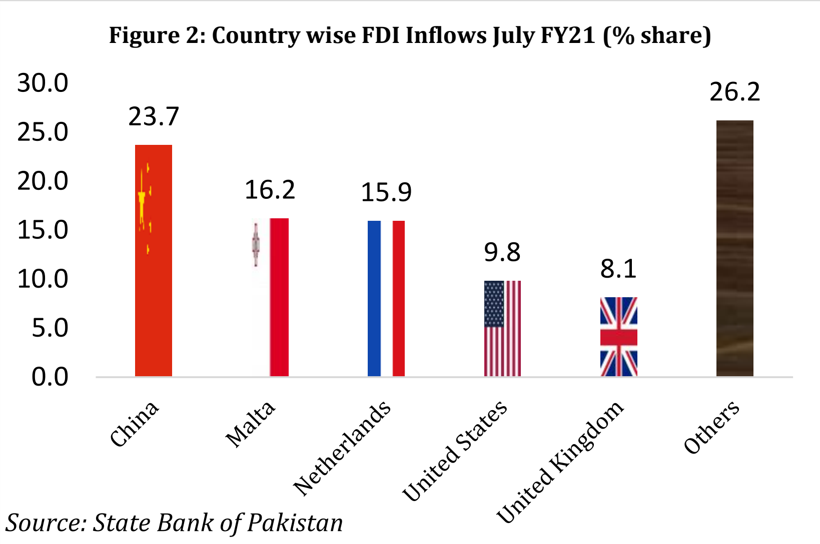
Non-debt creating financial inflows, Foreign Direct Investment, supports the balance of payments. Net foreign direct investment rebounded during first month of FY21 compared to significant decline in the corresponding month of FY20. China remained the major contributor and electrical machinery sector attracted the larger share of inflows.



Source: State Bank of Pakistan

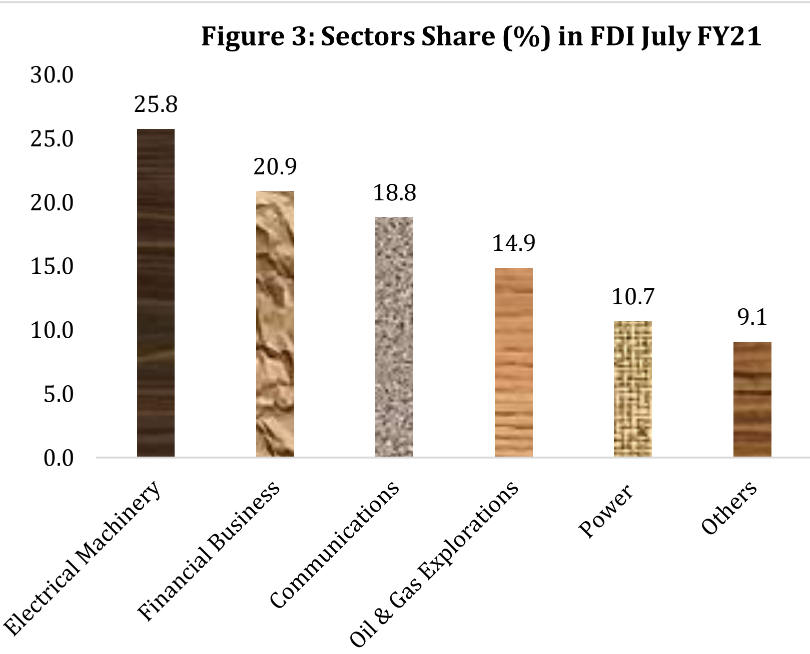
During the month of July, net FDI stood at US$ 114 million registering an increase of 60.8 percent compared to US$ 71 million recorded in July FY20 (Figure 1). On month-on-month basis, net FDI decreased by 34.6 percent over the US$ 175 million inflows during June 2020. Net inflow of foreign direct investment during July 2020 remained below the FY20 monthly average of US$ 213 million.

Chinese investment rebounded during July FY21 as the major contributor with US$ 27.1 million against net outflow of US$ 17.4 million in the same month in FY20 with 23.7 percent share in total FDI. Chinese investment in Pakistan declined earlier as leading projects under the CPEC had been completed. However, investment from China witnessed significant inflows during past few months. Malta remained second largest contributor with 16.2 percent share. The other major contributors are Netherlands, United States and United Kingdom with shares of 15.9%, 9.8% and 8.1% respectively. However, U.A.E divested (net) by US$ 9.2 million. Percentage share of country wise FDI (net) inflows during July FY21 is given in figure 2.



Source: State Bank of Pakistan

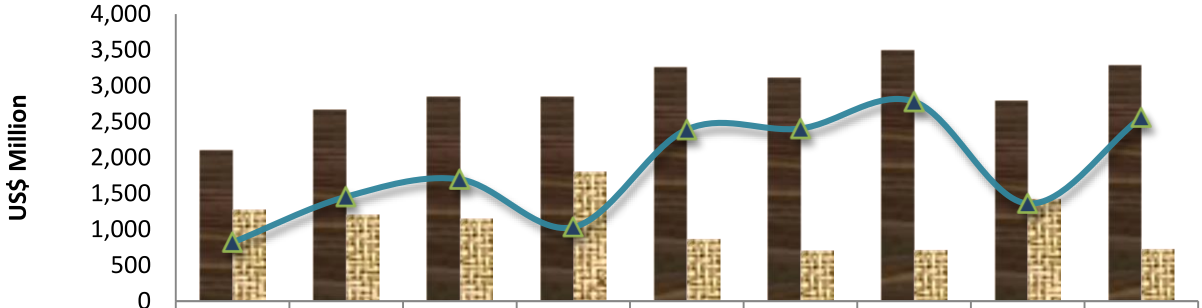
During July, electrical machinery sector replaced the communications sector with the share of 25.8% of total FDI inflows. The other recipient sectors include financial business (20.9%), communications (18.8%), oil & gas exploration (14.9%) and power (10.7%). Investment in power sector witnessed a net inflow of US$ 12.2 million during July FY21 compared to the outflow of US$ 3.3 million recorded in the corresponding month of FY20. Power sector registered net outflow of US$ 0.99 million in coal compared to net outflow of US$ 20.4 million in July FY20. In transport and equipment (Automobile) sector, net investment inflows in cars decreased from US$ 2.4 million to US$ 0.4 million 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 outflow of US$ 2.5 million during the period under review (Figure 3).



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 increased by 60.8 percent during July FY21 in the backdrop of increased net inflows from China compared to outflow in July FY20.
- In the backdrop improved Ease of Doing Business Index, foreign investors were expected to invest in new projects in particular during the second-phase of industrial development under CPEC as well as due to improving global economic situation in the post COVID-19.
- In the wake of UNCTAD's estimate of 40 percent reduction in global investment due to COVID-19, the trend of increase in net FDI inflows in Pakistan may not continue.
- 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.