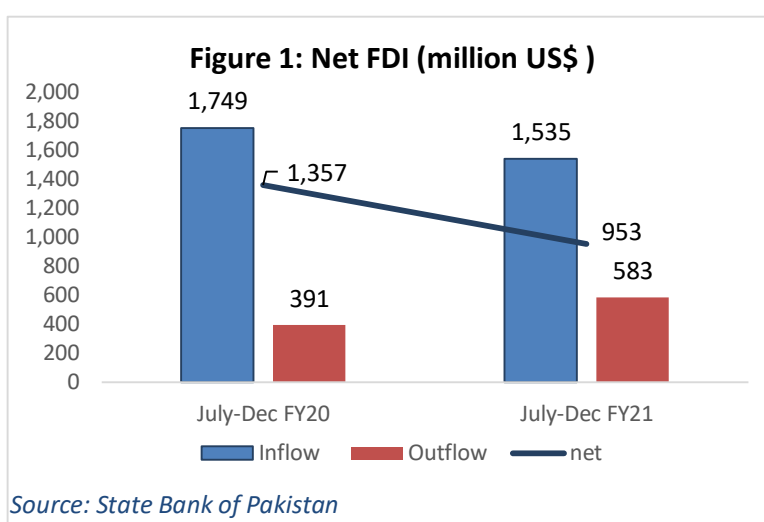


Government of Pakistan
Ministry of Planning, Development and Reform
(International Trade & Finance Section)
* * *

Subject: **Update on Foreign Direct Investment (FDI) for Jul-Feb FY21**

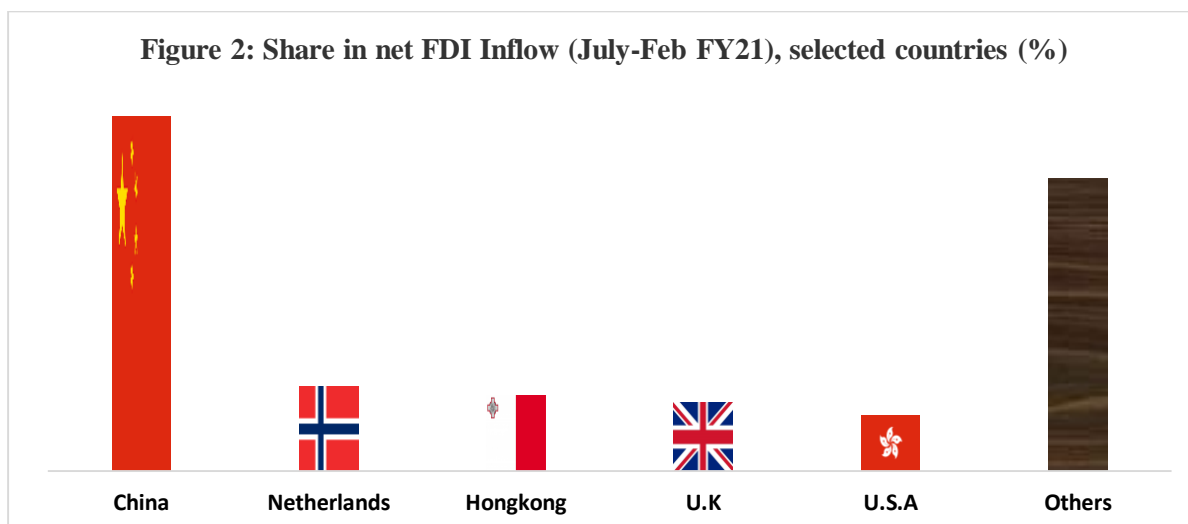
Efforts leading to increasing FDI, a source of non-debt generating financial inflows, is imperative to finance current account deficit and repayments of debt obligations. Net Foreign Direct Investment decreased by 29.9% during Jul-Feb FY21 compared to corresponding period of last fiscal year. China was the major contributor of net foreign direct investment during Jul-Feb FY21 and power sector attracted the larger share of inflows during the period under review.

During Jul-Feb FY21, net FDI stood at US\$1,300 million, around 30 percent less compared to US\$1,854 million recorded for the corresponding period of FY20 (Figure 1). On month-on-month basis, net FDI decreased by 37.7 percent to US\$ 115 million in February 2021 over US\$ 192.7 million



inflows during January 2021. This was also below the level of US\$ 277 million in February 2020, as well as below the FY20 monthly average of US\$ 213 million.

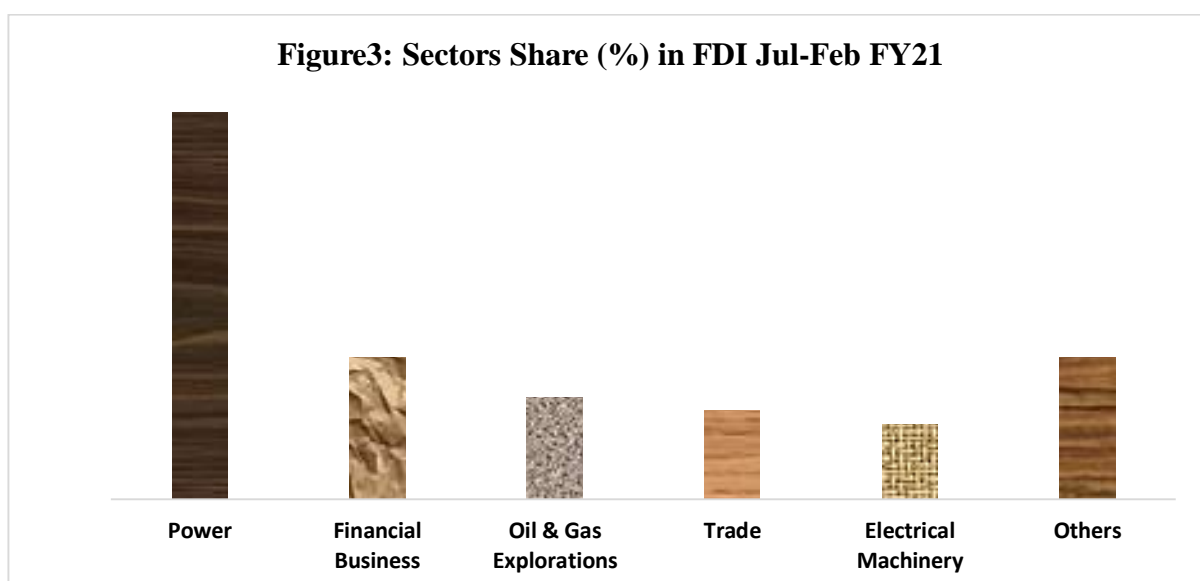
China, the major contributor with a share of 38 percent in total FDI, brought in US\$ 494 million during Jul-Feb FY21, followed by Netherlands, the second largest contributor with 9.1 percent share, contributed US\$ 118 million. The other major contributors include Hong Kong (8.2%), UK (7.3%), USA (6.1%), Malta (5%), Switzerland (5%), Germany (3.2%) and Sri Lanka (1.7%). On the other hand, Norway divested (net) US\$ 32 million. Percentage share of country wise FDI (net) inflows during July FY21 is given in figure 2.



Source: State Bank of Pakistan

During Jul-Feb FY21, Power sector attracted the largest share of net inflows worth US\$537 million with a share of 41.3 percent in total net FDI inflows, of which 57.7 percent of which (US\$310 million) went to coal-based power generation. Other major sectors of net FDI include Oil & Gas Exploration sector (US\$197), Trade (US\$142), Electrical Machinery (US\$123), Financial Business (US\$105) accounting for 15.1 percent, 10.9 percent, 9.5 percent, and 8.0 percent shares, respectively.

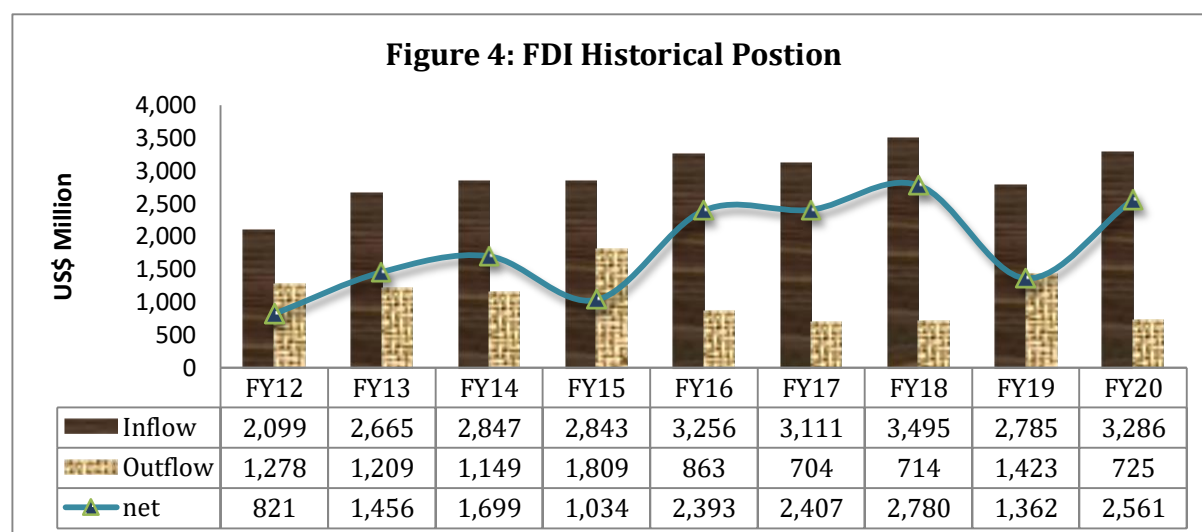
Net inflows in Power sector remained almost same during Jul-Feb FY21 compared to the corresponding period of FY20. However, Within Power sector, the share of coal-based power generation declined from 72 percent to 58 percent. The contribution of Oil & Gas Exploration sector and Electrical Machinery declined as compared to the same period of last year owing to slowdown caused by COVID-19 Pandemic.



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 three consecutive years, net FDI plunged in FY19 and rebounded during FY20. Based on the current trend during the first eight months of the year, it is expected that net FDI will be around US\$ 2,000 million in FY 2021. Historical position of the FDI is given below in figure 4.



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 29.9 percent during Jul-Feb FY21 compared to corresponding period in FY20 aligned with UNCTAD's estimate of 40 percent reduction in global investment due to COVID-19.
- China remained the major contributor followed by Netherlands, Hong Kong, UK and USA. Power sector attracted major share of the inflows during the period.
- More efforts are required for attracting FDI in the areas of comparative advantages and labor intensive as well as resource and efficiency seeking FDI instead of market seeking FDI. Moreover, placing FDI on national agenda through aligning it with the policies of Trade, Textile and Monetary.
- Hence focus is also needed for HR/skill development, facilitation through improving Ease of Doing Business, more facilities in SEZs, creating consistence of polices and political stability, more incentives for FDI and avoiding rent seeking and obsolete technology.
- Keeping in view the stagnant exports, 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.