

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

External Sector Performance Report for Jul-Feb FY21

(April-2021)

Balance of payments position has improved during Jul-Feb FY21. The first eight months of the current fiscal year witnessed current account surplus mainly due to increased inflow of workers' remittances. FDI rebounded while FPI and overall financial account witnessed healthy inflows. Current account surplus resulted in increased foreign exchange liquidity, build-up in the in SBP's liquid foreign exchange reserves and an appreciation in Pak Rupee.

Current Account Balance

The current account witnessed surplus of US\$ 881 million improving by 132.1 percent during Jul-Feb FY21 against deficit of US\$ 2,741 million in the same period of FY20. Moreover, current account balance registered a change from deficit of -1.5 percent of GDP to surplus of 0.5 percent of GDP during the period under reference. The trade deficit widened by around 22.1 percent during Jul-Feb FY21 and stood around US\$ 16,083 million compared to US\$ 13,166 million in Jul-Feb FY20. There is an increase of 8.6 percent in imports compared to 2.3 percent decline in exports during Jul-Feb FY21. The surplus in current account balance during Jul-Feb FY21 is primarily attributed to the inflow of workers' remittances (Table-1).

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

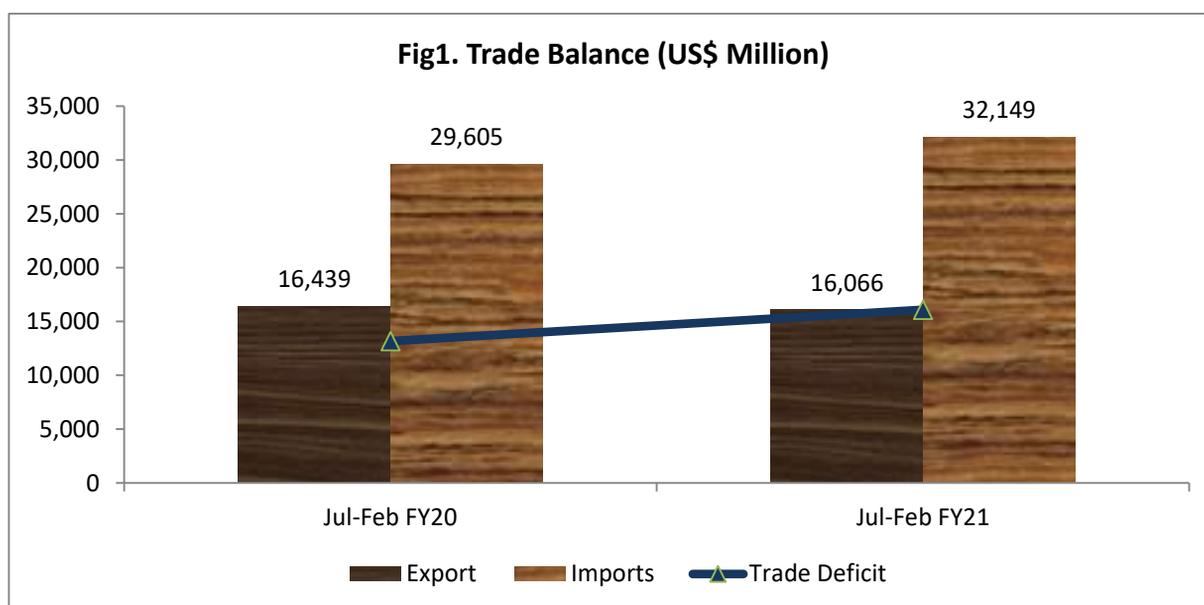
Items	Feb		% Change	Jul – Feb		% Change
	2020	2021		FY20	FY21	
1. Current Account Balance	-197	-50	74	-2,741	881	132.1
a. Balance on Trade in Goods	-1,568	-2,349	-49.8	-13,166	-16,083	-22.1
Exports of Goods (FOB)	1,993	2,165	8.6	16,439	16,066	-2.3
Imports of Goods (FOB)	3,561	4,514	26.8	29,605	32,149	8.6
b. Balance on Trade in Services	-407	-186	54.3	-2,300	-1,338	41.8
Exports of Services	470	484	2.98	3,815	3,809	-0.2
Imports of Services	877	670	-23.6	6,115	5,149	-15.8
c. Balance on Primary Income	-223	-185	17.0	-3,835	-3,244	15.4
d. Balance on Secondary Income	2,001	2,670	33.4	16,560	21,546	30.1
<i>Of which: Workers Remittances</i>	1,825	2,266	24.2	15,103	18,743	24.1
2. Capital Account Balance	10	10	0	213	163	-23.5
3. Financial Account	-627	-280	-55.34	-7,623	-129	-98.3
Of which:						
Direct Investment	-278	-154	-44.6	-1,798	-1,246	-30.7

General Government	91	107	17.6	4,491	3,335	-25.74
Disbursement	283	538	90.1	7,744	6,040	-22.0
Amortization	196	503	156.6	3,282	3,998	21.82
Reserves and Related Items	566	47	---	5,842	764	---
<i>CAB (As % of GDP)</i>	-0.9	-0.2	---	-1.5	0.5	---

Source: State Bank of Pakistan

a. Trade Account

The trade deficit widened by around 22.1 percent during Jul-Feb FY21 and stood at US\$ 16,083 million as compared to US\$ 13,166 million in Jul-Feb FY20. The trade deficit widened on the back of imports of capital goods and industrial materials as well as food, together with rising international commodity prices. Moreover, slight decline in exports caused primarily because of economic slowdown due to Covid-19 pandemic.



Source: State Bank of Pakistan

Exports

Exports witnessed decline of 2.3 percent and stood at US\$ 16,066 million during Jul-Feb FY21 compared to US\$ 16,439 million in the corresponding period of last fiscal year. Although exports have declined however they managed to recover from the negative impact of Covid-19 pandemic.

During February 2021, exports of goods grew by 9% to US\$ 2,165 million compared to US\$ 1,993 billion in the same month of last year and improved by 3% compared to the previous month of January 2021. The growth in exports and worker remittances encouraged industrialists to increase imports.

Exports receipts of rice, fruits, cotton yarn, cotton cloth, footballs and cement witnessed a decline for Jul-Feb FY21 as compared to corresponding period of last year while textile related items and pharmaceutical products registered increase during the period under reference. The price and quantum effects of selected export items show mixed trends (Table-2).

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	6.4	-10.0	80	-140	-60
Fruits	-13.4	13.3	-53	46	-7
Cotton Yarn	-1.7	-16.3	-11	-120	-131
Cotton Cloth	93.3	-53.6	596	-739	-143
Knitwear	-15.8	40.3	-465	842	377
Bed wear	17.2	-3.0	266	-47	219
Readymade Garments	62.4	-36.9	773	-723	50
Footballs	9.4	-31.5	7	-35	-28
Leather Garments	2.9	-0.3	6	-5	1
Pharmaceutical Products	2.6	20.0	5	30	35
Cement	-11.0	0.7	-23	12	-11

Source: Pakistan Bureau of Statistics

Textile sector's exports receipts of value-added products like bed wear and readymade garments etc. declined during the period due to low exports however their export prices increased. Exports receipts of knitwear increased over the corresponding period last year. There is significant increase in export receipts of fruits, oil seeds, nuts and kernals, meat and meat preparations and all other food items. An increase has been registered 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 some of the textile sector's products.

Overall output of Large Scale Manufacturing (LSM) has considerably rebound during July-Jan 2021 both on month-on-month and year-on-year basis by 5.3 percent and 7.9 percent respectively. Because of gradual easing of lockdown and opening up of production in the country, growth in almost all of the sectors has turned into positive i.e. textile, food, pharmaceuticals, automobiles 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.

Imports

Import of goods increased 27 percent to US\$ 4,514 million in February alone compared to US\$ 3,561 million in the same month of the last year. The imports grew by almost 2 percent in February as compared to the previous month. Cumulatively, during Jul-Feb FY21, imports surged 8.6 percent to US \$32,149 million compared to US\$ 29,605 million in the same period of the last year.

The import bill of different groups like food, machinery, transport, textile, agricultural and other chemical group, metal group and miscellaneous has increased. On the contrary, import bill of petroleum groups showed a decline. The price and quantum effects of selected import items show mixed trends (Table-3).

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	27.4	-34	89	55
Palm oil	24.4	7.7	311	91	402
Pulses	6.7	-5.5	24	-21	3
Petroleum Products	-37.9	27.7	-1,763	1,009	-754
Petroleum Crude	-33.5	13.8	-882	320	-562
Raw Cotton	-0.6	124.6	-5	485	481
Synthetic Fiber	-18.9	55.0	-88	165	77
Synthetic & Artificial Silk Yarn	-24.6	48.0	-142	187	45
Fertilizer Manufactured	0.6	-19.4	2	-87	-85
Plastic Materials	-5.9	23.6	-97	313	216
Iron and Steel Scrap	-7.6	25.6	-104	278	174
Iron and Steel	-8.1	27.0	-104	274	170

Source: Pakistan Bureau of Statistics

The imports of petroleum, and fertilizer group showed a declining trend while import of Plastic materials, iron and steel, agricultural and synthetic fiber group maintained an increasing trend on month on month basis mainly due to recovery of the textile sector and allied industries after Covid-19 pandemic.

b. Services Account

The deficit of trade in services declined by 41.8 percent and stood at US\$ 1,338 million during Jul-Feb FY21 compared to US\$ 2,300 million in the same period of FY20. Export of services witnessed slight decline of 0.2 percent and stood at US\$ 3,809 million. The imports of services also declined by 15.8 percent and stood at US\$ 5,149 million during Jul-Feb FY21 compared to US\$ 6,115 million in the corresponding period of FY20.

There is decline in exports of maintenance & repair, transport, travel, construction, personal, cultural & recreational, financial services, insurance and pension services and government goods and services i.e. logistic support. However, export of financial services, charges for the use of intellectual property, telecommunication, computer & information services increased during the period.

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

Balance on Secondary Income - Remittances

Workers' remittances have provided much needed support to external sector of the economy especially, over the last few years. Inflow of remittances sustained positive growth during Jul-Feb FY21 and surpassed the total exports receipts of the country during the period. Workers' remittances recorded inflows of US\$ 18,743 million during Jul-Feb FY21 against US\$ 15,103 million in the same period of FY20, thus registering an increase of 24 percent.

The increase in inflows can be attributed to supportive policy measures taken by the State Bank and the Government of Pakistan which 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 is an important source of non-debt creating foreign exchange inflows. Net foreign direct investment declined during first eight months of FY21 compared to the corresponding period of FY20. China remained the major contributor and power sector attracted the largest share of inflows.

During Jul-Feb FY21, net FDI stood at US\$ 1,246 million registering a decrease of 30.7 percent compared to US\$ 1,798 million recorded in Jul-Feb FY20. On month-on-month comparison, net FDI decreased by 20 percent from US\$ 192 million inflows during January 2021 to US\$ 155 million in February 2021. Net inflow of foreign direct investment during February 2021 remained around the FY21 monthly average of US\$ 155.7 million.

China contributed US\$ 91.1 million with 59 percent share in total FDI during February FY21. During July-Feb FY21 China remained the largest FDI contributor with a net investment of US\$ 494 million. Netherlands was the second major contributor of FDI during July-Feb FY21 with a net investment of US\$118 million. The other major contributors are Hong Kong, United Kingdom and United States with shares of 8.1%, 7.3% and 6.1% respectively.

During Jul-Feb FY21, power sector attracted more inflows with the share of 41.2% of total FDI inflows. The other recipient sectors include financial business (15.1%), oil & gas exploration (11%), trade (9.4%) and electrical machinery (8.0%). Investment in power sector witnessed net inflow of US\$ 536.7 million during Jul-Feb FY21 compared to the net inflow of US\$ 533.1 million recorded in the corresponding period of FY20. In power sector, investment in coal registered net inflow of US\$ 310 million.

Foreign Exchange Reserves and Exchange Rate:

The Average exchange rate during February 2021 remained at Rs. 159.1, compared to Rs. 160.1 during January 2021 depicting an appreciation of Rupee by 0.6 percent. Despite net inflow of FDI, financial account remained below the level of previous fiscal year because of the lower net incurrence of liabilities and outflow of FPI against inflows last year. Current account surplus of US\$ 881 million, along with capital account and financial flows resulted into addition of US\$ 764 million in SBP's liquid foreign exchange reserves during Jul-Feb FY21. The year on year basis change shows that net reserves with SBP increased by 1.7 percent and stood at US\$ 12.9 billion by the end of February 2021 compared to 12.7 billion last year.

Conclusions:

The overall external account position improved during Jul-Feb FY21. The first eight months of the fiscal year witnessed current account surplus primarily due to increased inflow of workers' remittances along with the reduction in outflow of primary income by US\$158 million and reached at US\$230 million in February compared to US\$388 million in January. Simultaneously, there was some relief for the financial account, where there

were no central bank repayments in February compared to US\$536 million in the preceding month. Simultaneously, current account surplus resulted in net addition in SBP's liquid foreign exchange reserves.

- Pakistan's economy started recovering from the negative impact of Covid-19 pandemic. Some of our major export items recorded double digit proportionate increase, including textile sector.
 - Large Scale Manufacturing (LSM) has rebounded because of gradual easing of lockdown and opening up of production in the country. There is need to tap this opportunity of demand shift from different countries facing lockdown towards Pakistan.
 - The imports increased owing to revival of textile and construction industry and low prices of commodities at international level,
 - Inflow of remittances sustained positive growth and recorded historical inflows despite global economic slowdown and layoffs. They stood above the total exports receipts of the country.
 - The ongoing revival in international petroleum oil prices is seen risky for economic growth, as they carry the potential to increase energy import bill of Pakistan and slightly widen the current account deficit. At the same time, the growth in the international oil price remains a positive development for growth in workers' remittances as majority of Pakistani expatriates are living in Middle Eastern oil exporting countries at present.
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