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

External Sector Performance Report for July FY21 (August-2020)

The overall balance of payments position improved during July FY21. The first month of the fiscal year witnessed current account surplus due to increased inflow of workers' remittances and overall decline in the balance of trade due to sharp decline in imports. FDI rebounded whereas FPI witnessed slight outflows and general government inflows improved. Current account surplus resulted in net addition in SBP's liquid foreign exchange reserves.

Current Account Balance

The current account witnessed surplus of US$ 424 million improving by 169 percent during July FY21 against deficit of US$ 613 million in the same month last fiscal year. Moreover, current account also declined from -2.8 percent to 1.9 percent of GDP during July FY21. Trade deficit considerably contracted by around 11.8 percent during July FY21 and stood around US$ 1,736 million compared to US$ 1,968 million in July FY20. There is decline of 13.3 percent in imports compared to 14.6 percent decline in exports. The surplus in current account deficit during July FY21 can be attributed to substantial decline in the deficit of trade in goods and services and better inflow of workers' remittances (Table-1).

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

Items	July		% Change
	FY20	FY21	
1. Current Account Balance	**-613**	**424**	**169.2**
a. Balance on Trade in Goods	-1,968	-1,736	11.8
Exports of Goods (FOB)	2,217	1,893	-14.6
Imports of Goods (FOB)	4,185	3,629	-13.3
b. Balance on Trade in Services	-420	-362	13.8
Exports of Services	460	436	-5.2
Imports of Services	880	798	-9.3
c. Balance on Primary Income	-565	-686	-21.4
d. Balance on Secondary Income	2,340	3,208	37.1
Of which: Workers Remittances	2,028	2,768	36.5
2. Capital Account Balance	**41**	**4**	**-90.2**
3. Financial Account	**-1,027**	**-241**	**-76.5**

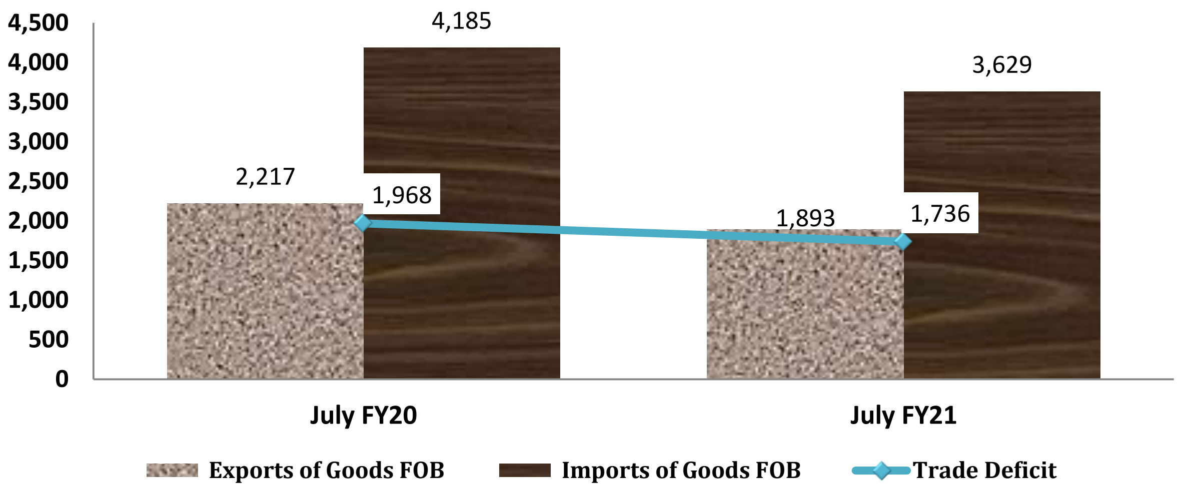
Of which:			
a. Direct Investment	-57	-115	101.8
b. Portfolio Investment	-92	7	-107.6
General Government	1,183	1,412	19.4
Disbursement	1,559	798	-48.8
Amortization	380	390	2.6
Reserves and Related Items	**751**	**241**	**---**
CAB (As % of GDP)	*-2.8*	*1.9*	---

Source: State Bank of Pakistan

a. Trade Account

The trade deficit narrowed down by around 12 percent during July FY21 and stood at US$ 1,736 million as compared to US$ 1,968 million in July FY20. This was mainly driven by decline in imports caused due to economic slowdown, low commodities prices, depreciation of Rupee against US Dollar.

Figure1. Trade Balance (US$ Million)



Source: State Bank of Pakistan

Exports

Exports witnessed decline of 14.6 percent and stood at US$ 1,893 million during July FY21 compared to US$ 2,217 million in the corresponding month last fiscal year. Although exports declined on year-on-year basis however they started recovering from the negative impact of Covid-19 pandemic as a result of lockdown both at local and global level. Exports increased by 19.7 percent on month-on-month basis from US$ 1,582 million in June 2020 to US$ 1,893 million in July 2020.

Exports receipts of all food, textile, petroleum and other manufacturer group witnessed decline during the period. The price and quantum effects of selected export items shows 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	4.9	-27.1	7	-53	-46
Fruits	-15.4	17.5	-8	7	0
Cotton Yarn	-15.4	-26.6	-11	-26	-37
Cotton Cloth	30.2	-22.3	35	-33	2
Knitwear	5.2	14.5	16	38	54
Bed wear	17.8	6.4	37	12	49
Readymade Garments	75.7	-32.8	118	-76	42
Footballs	0.7	-9.7	0	-1	-1
Leather Garments	-8.0	3.0	-3	7	4
Pharmaceutical Products	-8.5	31.2	-2	6	4
Cement	-20.9	1.5	-6	4	-2

Source: Pakistan Bureau of Statistics

Textile sector exported more value-added products like knitwear, bed wear etc. There is significant increase in export quantity of pharmaceutical products. Due to low demand, prices of most of the commodities went down at international level.

Overall output of Large Scale Manufacturing (LSM) has plunged by over 10 percent during Jul-Jun FY20 which has affected supply side of exports. Moreover, slowdown in global demand due to COVID-19, decline in international prices of most of our major export items and lockdown at home may further contribute towards decline. Therefore, consistent efforts are required to achieve growth and gain benefits out of competitiveness achieved from depreciation of rupee.

Imports

Imports declined from US$ 4,185 million in July FY20 to US$ 3,629 million during July FY21, showing 13.3 percent decrease. The import bill of food, machinery, textile and miscellaneous group increased whereas transport, petroleum, agri. & other chemical and metal group imports declined during the period. The price and quantum effects of selected import items shows 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	-10.7	23.9	-5	8	4
Palm oil	9.6	163.7	18	117	135
Pulses	16.9	-21.8	7	-11	-4

Petroleum Products	-43.3	64.6	-296	268	-28
Petroleum Crude	-34.9	20.1	-109	52	-57
Raw Cotton	-15.4	125.1	-9	34	25
Synthetic Fiber	-37.9	45.1	-23	19	-4
Synthetic & Artificial Silk Yarn	-20.4	32.6	-9	11	2
Fertilizer Manufactured	2.6	-15.7	1	-8	-7
Plastic Materials	-14.0	29.3	-29	46	18
Iron and Steel Scrap	-11.6	35.9	-21	48	27
Iron and Steel	-17.6	56.0	-31	63	32

Source: Pakistan Bureau of Statistics

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.

b. Services Account

Trade in services deficit declined by a 13.8 percent and stood at US$ 362 million during July FY21 compared to US$ 420 million in the same month last fiscal year. Export of services witnessed decline of 5.2 percent and stood at US$ 436 million while imports of services declined by 9.3 percent to US$ 798 million during July FY21.

There is decline in exports of transport, travel, construction, personal, cultural & recreational, financial & other business services. However, export of maintenance & repair, insurance & pension, charges for the use of intellectual property, telecommunication, computer & information services increased during the period.

Similarly, imports of maintenance & repair, transport, travel, construction, personal, cultural & recreational services, charges for the use of intellectual property, insurance & pension services declined whereas import of financial, 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 July 2020 and recorded the highest ever inflows in a month. They stood above the total exports receipts of the country. The increase in inflows can be attributed to the holy occasion of Eid-ul-Adha and 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.

Workers' remittances recorded the highest historical inflows of US$ 2,768 million during the month of July FY21 against US$ 2,028 million in the last fiscal year, thus sustaining positive growth of 36.5 percent compared to 2.7 percent growth witnessed in the corresponding fiscal year. It would be pertinent to mention here that inflow of workers' remittances registered an increase of a 14.0 percent during the pandemic period Mar-Jul compared with the corresponding period of last year.

Foreign Direct Investment

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.

During the month of July, net FDI stood at US$ 115 million registering an increase of 101.8 percent compared to US$ 57 million recorded in July FY20. 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.

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.

Foreign Exchange Reserves and Exchange Rate:

The Average exchange rate during July FY21 remained at Rs. 166.8, compared to Rs. 158.8 during July FY20 depicting a depreciation of Rupee by 4.8 percent. FDI recorded net inflows while general government inflows also increased during July FY21. However, financial inflows remained below the level of July FY20 because of lower net liabilities and outflow of FPI against inflows last year. Lower current account surplus of US$ 424 million and Financial/Capital account inflows of US$ 245 million resulted into addition of US$ 241 million in SBP's liquid foreign exchange reserves during July FY21. The year on year basis change shows that net reserves with SBP increased by 60.2 percent and stood at US$ 12.5 billion by the end of July 2020.

Conclusions:

The overall external account position improved during July FY21. The first month of the fiscal year witnessed current account surplus primarily due to increased inflow of workers' remittances and overall decline in the balance of trade due to sharp decline in imports. FDI rebounded whereas FPI witnessed slight outflows and general government inflows improved. Current account surplus resulted in net addition in SBP's liquid foreign exchange reserves.

- Although global economic slowdown and lockdown at home contributed to the overall deterioration in the exports performance however they 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 plunged by over 10 percent during Jul-Jun FY20, which depressed exports. Depressed global demand, international prices of major export items and lockdown at home also contributed to this decline.
- The imports declined owing to slowdown in economic activity, low prices of commodities at international level, completion of CPEC early harvest projects, depreciation of Pak Rupee against dollar and a host of other factors.
- Inflow of remittances sustained positive growth and recorded the highest ever inflows in a month despite global economic slowdown and layoffs. They stood above the total exports receipts of the country.
- FDI rebounded to record significant net inflows primarily from China and in machinery sector.