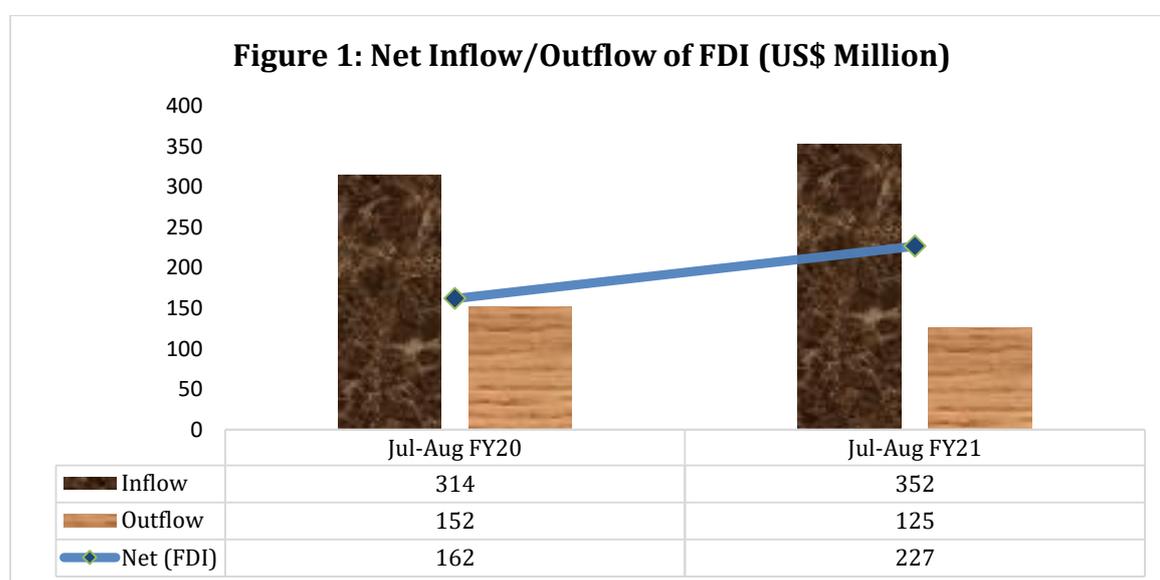


Government of Pakistan
Planning Commission
Ministry of Planning, Development and Special Initiatives
(International Trade & Finance Section)

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

Foreign Direct Investment, being Non-debt creating financial inflows, supports the balance of payments. Net foreign direct investment rebounded during Jul-Aug FY21 compared to significant decline in the corresponding period of last fiscal year. Norway remained the major contributor and financial business sector attracted the larger share of inflows.

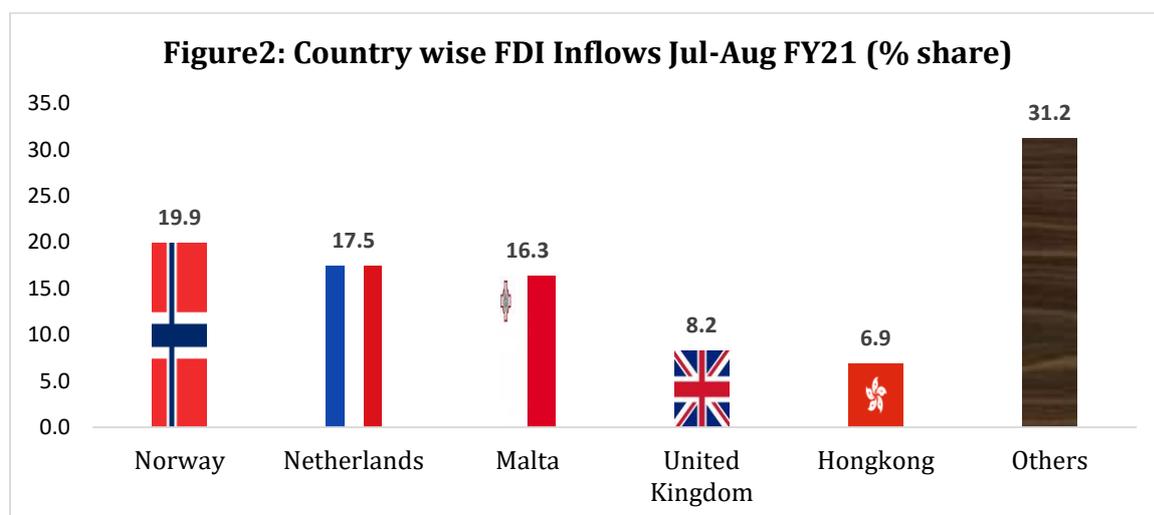


Source: State Bank of Pakistan

During Jul-Aug FY21, net FDI stood at US\$ 227 million registering an increase of 39.9 percent compared to US\$ 162 million recorded in the corresponding period last fiscal year (Figure 1). On month-on-month basis, net FDI decreased by 1.7 percent to US\$ 112 million in August 2020 over the US\$ 114 million inflows during July 2020 however it remained above the level of US\$ 91 million in August 2019. Net inflow of foreign direct investment during August 2020 remained below the FY20 monthly average of US\$ 213 million.

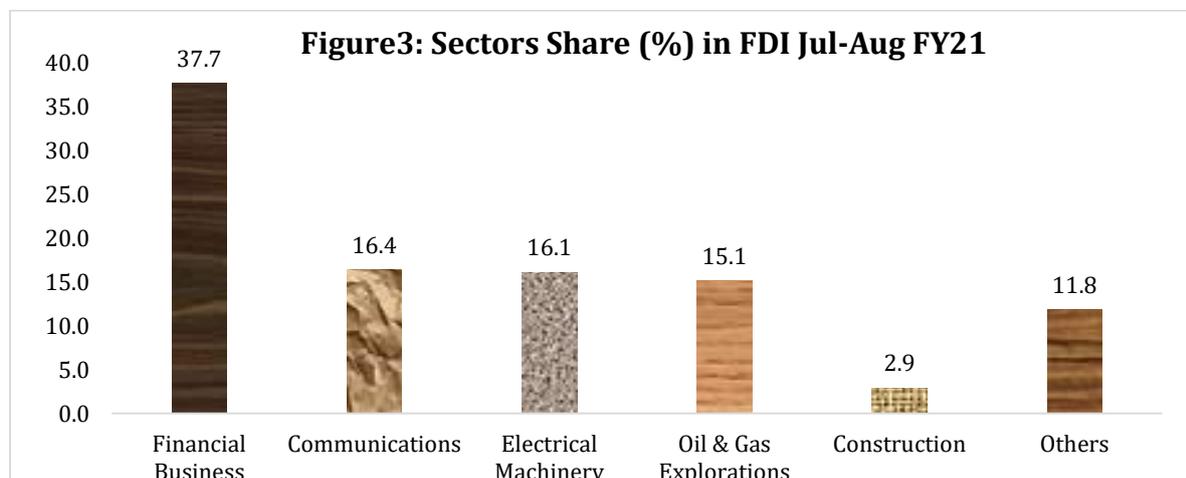
Norway replaced Malta during Jul-Aug FY21 and became the major contributor with US\$ 45 million with 19.9 percent share in total FDI. China was the major contributor last month however due to net outflows during August 2020, Chinese investment share declined to 2.9 percent from 23.7 percent last month. Netherlands remained the second largest contributor with 17.5 percent share. The other major contributors are Malta, United Kingdom and Hongkong with shares of 16.3%, 8.2% and 6.9%

respectively. However, U.A.E divested (net) by US\$ 15.4 million. Percentage share of country wise FDI (net) inflows during July FY21 is given in figure 2.



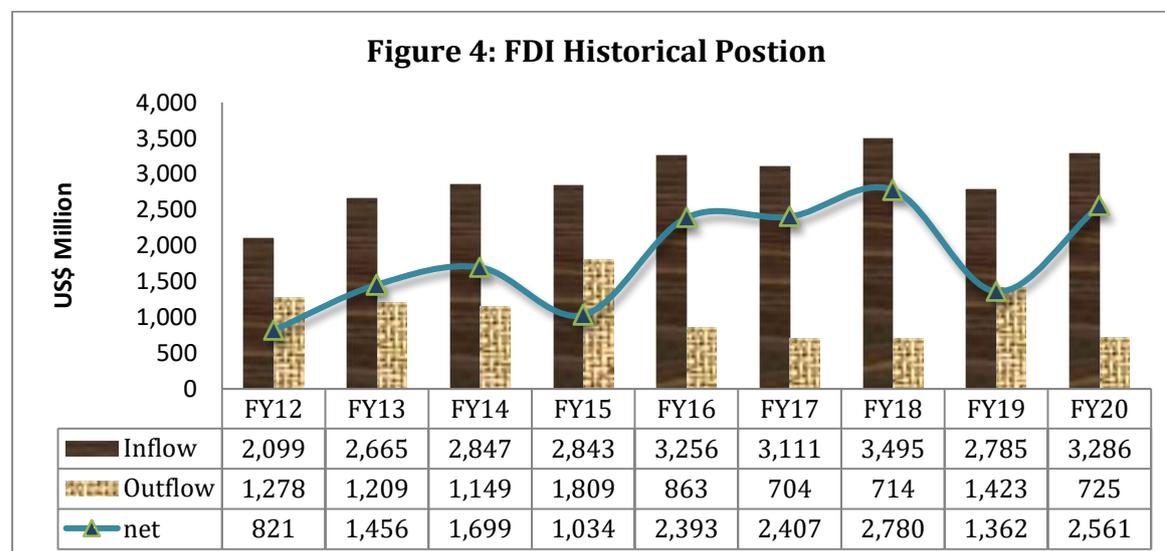
Source: State Bank of Pakistan

During Jul-Aug FY21, Financial Business sector replaced the communications sector with the share of 37.7% of total FDI inflows. The other recipient sectors include communications (16.4%), electrical machinery (16.1%), oil & gas exploration (15.1%) and construction (2.9%). Investment in power sector witnessed a net inflow of US\$ 5.5 million during Jul-Aug FY21 compared to the inflow of US\$ 16 million recorded in the corresponding period of FY20. In power sector, investment in coal registered net outflow of US\$ 22 million. In transport and equipment (Automobile) sector, net investment inflows in cars recorded net outflows of US\$ 2.1 million against US\$ 5.8 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 outflow of US\$ 3.2 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.



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 39.9 percent during Jul-Aug FY21 in the backdrop of increased net inflows from Norway, Netherlands, Malta and other countries. Financial Business Services attracted major share of the inflows during the period.
- 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 and easing lockdown and opening of businesses at home.
- 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.