

Chapter 6

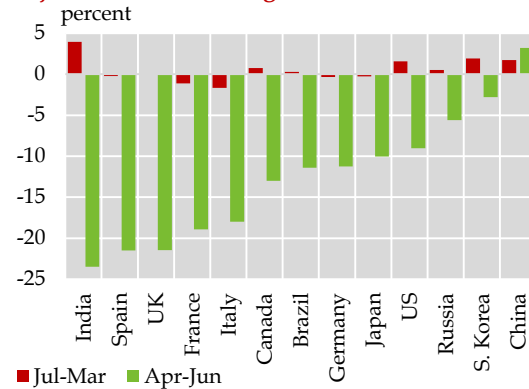
External Sector

The external account improved significantly in FY20, as the current account deficit (CAD) fell to a five-year low. This was mainly on the back of a significant contraction in both goods and services import payments and record high remittance inflows. While non-energy import demand was reined in by the stabilization policies adopted earlier, a shift towards indigenous sources and a heavy drop in international oil prices led the energy imports to fall to a four-year low. The lower CAD significantly reduced the country's need to arrange external financing. The initiation of the IMF program unlocked sizable IFI funding in FY20, whereas the country was also able to attract foreign exchange inflows into the local currency debt market till February 2020. Though the Covid-19 pandemic brought some disruption in Q4 – as export receipts declined sharply after growing in the first three quarters and as outflows were recorded from portfolio investments – the cumulative impact was offset by a steep fall in import payments and increased financing from IFIs. On a full-year basis, the sharp contraction in the current account deficit, along with financial support from IFIs, led to a US\$ 4.9 billion increase in the SBP's liquid reserves and a US\$ 2.3 billion decrease in the central bank's net forward liabilities. Nevertheless, the Pak Rupee depreciated 4.8 percent vis-à-vis the US dollar in FY20, which was less than depreciations recorded by many other EM currencies. The Pak Rupee had been appreciating till February 2020, whereas pressures on the exchange rate emerged on account of portfolio outflows in March, and retirement of foreign obligations in Q4-FY20.

6.1 Global Macroeconomic Trends

Global economic growth had slowed down to a 10-year low of 2.9 percent in CY19, as global trade volumes stagnated and manufacturing activity lost momentum. Uncertainty stemming from trade disputes between the US and its major trading partners (China and the EU); a sizable slowdown in China; Britain’s protracted exit negotiations with the EU; and a challenging regulatory environment for the worldwide automobile and aviation industries, were the primary reasons behind the low growth.^{1,2} As such, the world economy entered the Covid-19 pandemic period with much weaker fundamentals than during the last worldwide crisis – the global financial crisis of 2008.³ In the wake of the most serious challenge since the post-World War II era, world GDP growth is projected to contract 4.1 percent in the Jan-Jun period of 2020, with almost all major advanced and

Average Real GDP Growth (YoY) in Major Economies during FY20 Figure 6.1

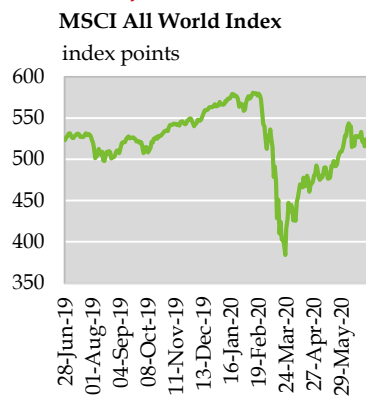


Source: Haver Analytics

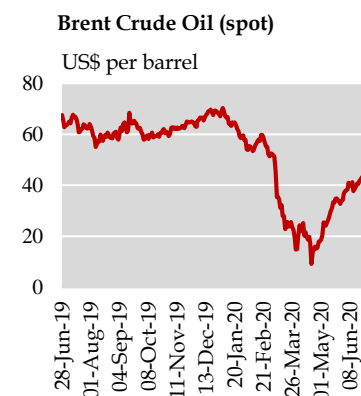
emerging market (EM) economies reporting negative growth (Figure 6.1).⁴

Among the advanced economies, the US economy decelerated as the fiscal and trade-related uncertainty and some industry-specific issues (in aviation and automobiles) subdued investment and manufacturing activity; this

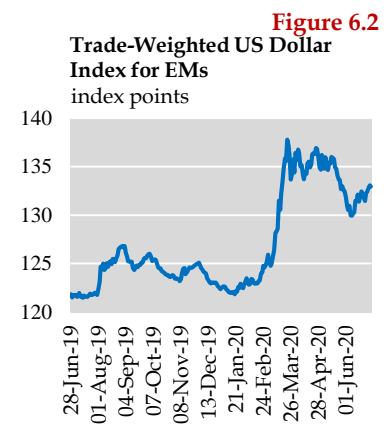
Trend in Major Financial Market Indicators & Oil Prices



Source: MSCI



Source: US EIA



Source: US Federal Reserve

¹ The global trade volumes had dropped 0.4 percent YoY in CY19, after rising by 3.4 percent in CY18 (source: World Trade Monitor, CPB Netherlands Bureau for Economic Policy Analysis).

² The global car production was estimated to drop 6 percent in CY19 over CY18, according to the German Association of the Automotive Industry (VDA). Production dropped in the largest market (China), as well as in India, the EU, the USA and Japan. Tariff uncertainties (EU), efforts to increase electric vehicle usage (China), and stricter lending (India) were the main factors. In the US, aircraft maker Boeing halted production of its 737 Max airplane in January 2020 after 2 plane crash incidents, impacting industrial activity across its supply chain.

³ At the onset of the GFC, most advanced and EM economies were coming from a brisk growth phase. In the five years before the GFC (2003-07), global real GDP growth averaged 5.1 percent. In contrast, real GDP growth in the five years preceding the Covid-19 outbreak (2015-19) averaged a much lower 3.5 percent (source: IMF).

⁴ As per the IMF’s June 2020 projections, with Q3-FY18 (Jan-Mar 2019) quarter as the baseline.

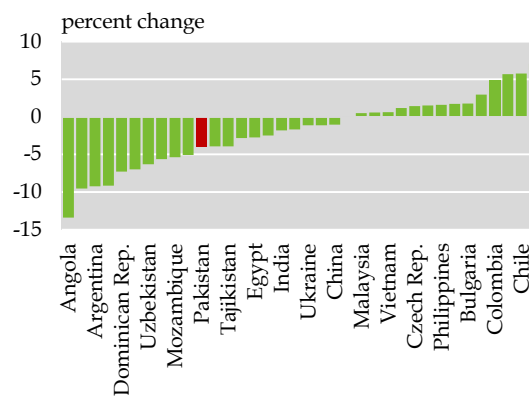
slowdown prompted the US Federal Reserve to cut interest rates three times in Jul-Dec 2019. Nonetheless, consumer spending stayed strong as unemployment remained at multi-decade lows, and partially compensated for weaker investment.⁵ In the EU, growth stalled in the major economies, as global trade headwinds – including the US imposing tariffs on Airbus aircraft (impacting France and other EU countries integrated with the supply chain) and pressurizing the German auto industry with the possibility of tariffs – curtailed investment and manufacturing activity. The ECB responded by lowering its policy rate further into negative territory and reinitiated asset purchases from September 2019 onwards.

Among the emerging markets (EMs), growth in China had fallen to a 29-year low of 6.0 percent in Jul-Dec FY20, as the trade dispute with the US weighed on exports; automobile production and sales (with cross-linkages across multiple industries) fell throughout the year amid weak demand and a push to adopt electric vehicles; and the government took a cautious fiscal stance to deal with the slowdown. In India also, growth fell to a 10-year low of 4.2 percent in the year ending March 2020, as banks and non-banks curtailed rampant lending witnessed in previous years, causing weaknesses in the construction and automobile sectors and hitting consumer spending in general.⁶

Amid this challenging global environment, Covid-19 first struck China (in January and February 2020) before spreading worldwide by March. Governments across the world responded by imposing strict mobility restrictions, which severely impacted the global services industry – especially retail, aviation, tourism and hospitality sectors. The

resulting layoffs lowered consumer spending power, which, coupled with retail store closures, led into shrinking manufacturing activity and lowered import demand for a wide range of products. This, in turn, had adverse consequences for export-dependent EMs, though the resulting pressure was somewhat offset by a historic slump in global oil prices (**Figure 6.2**). The financial markets volatility increased with the evolving situation, with equities tanking, credit spreads widening, investors divesting from EM holdings, and the US dollar spiking to a multi-year high against the EM currencies.⁷

Change in EM Currencies during Mar-Jun 2020 **Figure 6.3**



Source: Haver Analytics

Resultantly, many EMs, including Pakistan, were suddenly faced with balance of payment challenges, as export receipts dried up and portfolio outflows began, leading to pressures on official foreign exchange reserves as well as the exchange rate parity with the US Dollar (**Figure 6.3**). Simultaneously, governments were forced to significantly increase fiscal outlays to shore up healthcare supplies and facilities; provide cash support to the newly unemployed; and save businesses from

⁵ Average private investment in the US fell 0.1 percent YoY during Jul-Dec FY20. In contrast, average private consumption rose 2.5 percent YoY during the period (source: US Bureau of Economic Analysis). The unemployment rate had fallen to 3.3 percent during Sep-Nov 2019 – the lowest since December 1969 (source: Haver Analytics).

⁶ India had imposed lockdowns on March 25, 2020, meaning that only one week’s worth of economic activity was impacted in its fiscal year ending March 30.

⁷ As measured by the Dollar index (trade-weighted against the US’ EM trade partners) computed by the US Federal Reserve.

Pakistan's Balance of Payments**Table 6.1**

billion US\$

	FY19	FY20	Abs change	FY20	
				Jul-Feb	Mar-Jun
Current account balance	-13.4	-3.0	10.5	-2.7	-0.2
Trade balance	-27.6	-19.9	7.7	-13.2	-6.7
<i>Exports</i>	24.3	22.5	-1.8	16.4	6.1
<i>Imports</i>	51.9	42.4	-9.5	29.6	12.8
Services balance	-5.0	-2.8	2.1	-2.3	-0.5
Primary income balance	-5.6	-5.7	-0.1	-3.8	-1.8
Secondary income balance	24.8	25.5	0.7	16.6	8.9
<i>Workers' remittances</i>	21.7	23.1	1.4	15.1	8
Capital account balance	0.2	0.3	0.1	0.2	0.1
Financial account balance	-11.8	-7.7	4.1	-7.6	-0.1
Direct investment in Pakistan	1.4	2.6	1.2	1.9	0.7
Portfolio investment in Pakistan	-1.4	-0.5	0.9	2.1	-2.7
Other investment	-11.6	-5.6	6.0	-3.6	-2.0
Net incurrence of liabilities	11.5	5.3	-6.2	4.2	1.0
<i>General Government</i>	4.3	5.8	1.5	4.5	1.3
SBP's liquid reserves (end-period)	7.3	12.1	4.9	5.5	-0.6
PKR app(+)/ dep(-) against US\$ (in %)	-24.1	-4.8		3.8	-8.2

Source: State Bank of Pakistan

bankruptcy by smoothening liquidity constraints. These public finance and BoP challenges forced many economies to seek support from IFIs as well as from commercial and bilateral lenders. In response, the IFIs expanded their grants and lending to the distressed economies, and also engaged the G-20 countries to work out a mechanism to defer official bilateral loan payments falling due this year for eligible countries.⁸ Under the resulting Debt Service Suspension Initiative (DSSI) announced in May, the eligible countries are likely to see combined loan deferments of US\$ 12.1 billion.⁹

While the impact of the IFI-led and local responses continues to play out, by end-June, many of the advanced economies had managed to control the outbreak and begun to ease lockdowns (with the US being a notable

exception). Meanwhile, China was the earliest to control the virus and resume industrial activity, followed by South Korea and Vietnam. Global equities also rebounded strongly from May onwards, as investors were buoyed by the easing of lockdowns and strong earnings of e-commerce and technological companies.

6.2 Pakistan's Balance of Payments

Two key developments were responsible for the improvement in the country's external account in FY20. The first was the introduction of a market-based exchange rate system that acted as an automatic stabilizer, by correcting the accumulating imbalances in the trade account in the pre-Covid period and simultaneously helping the country attract record portfolio flows into domestic debt

⁸ Between April and end-June 2020, the IMF disbursed US\$ 87.8 billion in financing to member countries; the World Bank US\$ 17 billion; and the ADB US\$ 7.8 billion (by end-July). Sources: IMF Lending Tracker (as of August 10); World Bank (<https://www.worldbank.org/en/news/factsheet/2020/05/11/debt-relief-and-covid-19-coronavirus>); and ADB (<https://www.adb.org/news/adbs-covid-19-response-reaches-93-billion-end-july-2020>).

⁹ As of October 16, 2020. Source: World Bank (<https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>).

securities. After the Covid outbreak in Q4, this mechanism cushioned the impact of capital outflows by reducing the country's external financing needs, as the current account gap fell to a five-year low on the back of a significant reduction in goods and services import payments. And the second factor was the initiation of the EFF program in July 2019, which unlocked US\$ 1.4 billion in direct financing in the year and also facilitated the country's engagement with other IFIs and private investors. Once the Covid crisis hit and Pakistan's reserves position and exchange rate, similar to other EMs, came under pressure, the country was able to secure US\$ 1.4 billion from the IMF's Rapid Financing Facility, along with temporary debt relief under the G-20 led DSSI program (**Section 6.1**).

Besides, a number of policy measures – including the continued restriction on car imports under the baggage scheme (introduced in FY19), the substitution of relatively costly import-based power generation with cheaper alternatives, and the documentation drive necessitating submission of CNIC for high-end purchases – led to significant import compression from the start of FY20. Moreover, a number of incentives announced to attract remittances through formal channels, resulted in a notable rise in these inflows in FY20.

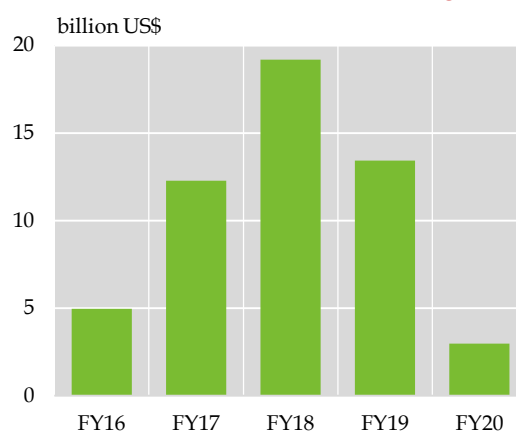
Although some disruption was observed in the Covid period, especially on the export side, the overall current account continued to improve and the country recorded a steep reduction in the current account deficit in the full year. (**Table 6.1**). This, along with inflows from IFIs and foreign private investments, helped to build the country's liquid FX reserves to US\$ 12.1 billion by end-June 2020 from US\$ 7.3 billion by end-FY19.

Current Account

The current account deficit fell to US\$ 3.0 billion in FY20, almost a quarter of last year's level (**Figure 6.4**). This improvement was broad-based, as trade, services and secondary

income accounts, all showed better performances compared to last year. The deficit in the primary income account was an exception, as it rose marginally from last year

Current Account Deficit **Figure 6.4**



Source State Bank of Pakistan

Primary income

The primary income account posted a deficit of US\$ 5.7 billion during FY20; this was close to last year's level, despite increasing 14.5 percent in first three quarters of FY20 (**Table 6.2**). The economic condition after outbreak of Covid-19 reined in the profit repatriation in Q4-FY20 in all major sectors, including food, power, and communication. In the full year FY20, however, the decrease in profit repatriation was more than offset by the higher interest payments amidst an elevated level of external debt.

Primary Income Account **Table 6.2**

	Q4			
	FY19	FY20	FY19	FY20
Primary income	-1,875	-1,406	-5,610	-5,682
Direct investment	-1,018	-636	-2,916	-2,598
Portfolio investment	-284	-169	-673	-496
Other investment	-635	-637	-2,281	-2,792
Others	62	36	260	204

Source: State Bank of Pakistan

Services account

The services trade deficit declined by 43.1 percent YoY to US\$ 2.8 billion in FY20 from

Trade in Services**Table 6.3**

billion US\$

	Jul-Jun FY19			Jul-Jun FY20			FY19	Q4	
	Credit	Debit	Net	Credit	Debit	Net		FY20	Change
Services Account	6.0	10.9	-5.0	5.4	8.3	-2.8	-1.5	-0.4	1.1
<i>of which</i>									
Transport	0.9	3.6	-2.8	0.8	3.1	-2.3	-0.8	-0.5	0.3
Travel	0.4	1.7	-1.3	0.5	1.2	-0.7	-0.4	0.0	0.4
Other business services	1.6	2.5	-0.9	1.3	2.5	-1.2	-0.4	-0.3	0.1

Source: State Bank of Pakistan

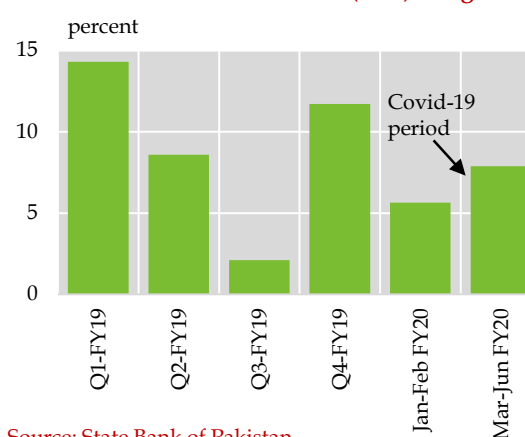
US\$ 5.0 billion last year (Table 6.3). This improvement largely came from the fall in services imports, as exports of services has also declined marginally during the year.

Around 50 percent of the decline in imports came from a fall in travel and transportation services. While the Pak Rupee depreciation against the US dollar helped curtail services' imports, a significant part of this improvement is also attributed to the lockdown in the Q4, when transport and travel services came almost to standstill, both in Pakistan and abroad. Moreover, the continuous fall in the merchandise imports led to an 8.9 percent decline in the net import of freight services in FY20.

Workers' remittances

Workers' remittances grew 6.4 percent and reached US\$ 23.1 billion in FY20. In Q4, remittances witnessed a YoY growth of 7.3 percent, higher than the full year growth (Figure 6.5).

This was in contrast to projections that global remittance flows to developing countries would weaken sharply following the Covid-19 pandemic.¹⁰ Remittances to Pakistan in particular were expected to be hit hard, given the presence of a large number of low skilled workers in the GCC, specifically Saudi Arabia (KSA) and the UAE. As the GCC countries

Workers' Remittances Growth (YoY) Figure 6.5

Source: State Bank of Pakistan

were passing through the dual crises of falling oil prices and a slowdown in economic activity amid pandemic-related lockdowns, remittance flows from these regions were expected to be adversely affected.¹¹

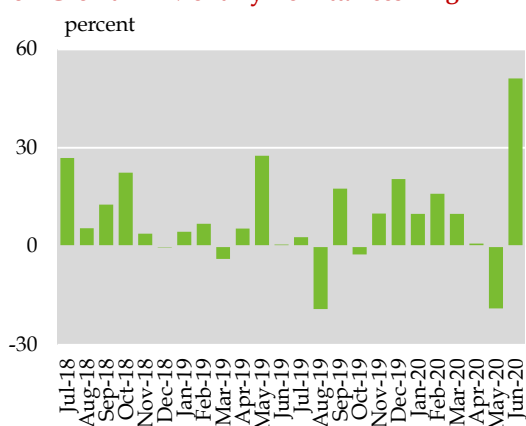
Despite these projections, remittances to Pakistan actually grew in the fourth quarter on the back of 51.5 percent growth in June 2020, which more than compensated the 19.0 percent decline in inflows in May 2020 (Figure 6.6). Strict lockdowns imposed in April and May, specifically in GCC countries, restricted expatriates from sending Eid-related inflows in May, which later appeared in June as the lockdowns eased in the Middle East. Moreover, despite partial resumption in international flights, cross-border movement remained restrictive, which points towards

¹⁰ The World Bank has projected that remittances to low- and middle-income economies may fall by 20 percent during CY-2020 (Migration and Development Brief 32, April 2020).

¹¹ The IMF had projected real GDP growth of the GCC countries to shrink by 7.1 percent during CY-2020 (source: IMF Regional Economic Outlook, Middle East and Central Asia, July 2020). Besides the sagging oil prices, these economies were facing severe problem in tourism and businesses, where most of the foreign workers are employed. As a result, a large number of migrant workers have already been laid off and returned to Pakistan.

increased use of official channels for sending remittances. This, interestingly, was happening at a time when a large number of migrant workers were been laid off and were returning to Pakistan. At this point, the

YoY Growth in Monthly Remittances Figure 6.6



Source: State Bank of Pakistan

government started developing a reintegration mechanism for returning migrants in the domestic labour market (Box 6.1).

From the policy perspective, a number of initiatives announced by the government last year, which were further enhanced during the Covid-19 period, may have also supported this increase in remittances through formal channels.¹² These include: (i) extension in the scheme for reimbursement of TT charges to small remitters by reducing the transaction threshold from US\$ 200 to US\$ 100; (ii) broadening the scope of the incentive scheme for financial institutions; (iii) on-boarding of a large number of technology-based money transfer companies by the SBP and the PRI; and (iv) use of effective marketing campaigns, with a focus on digital channels, for sending and receiving remittances.

Box 6.1: Covid-19 and Forced Repatriation of Migrants in Pakistan: Government’s Strategy and Challenges Ahead

This Box briefly presents the impact of Covid-19 on overseas work opportunities for Pakistanis, explains the contours of the reintegration strategy for returning migrants in domestic labor market, and presents recommendations derived from the International Organization for Migration (IOM)’s framework.

The global job market

According to the ILO modelled estimates, the global working hours declined by an estimated 5.4 percent (equivalent to approximately 155 million full-time jobs) during Q1-2020, compared to the pre-crisis situation (Q4-2019).¹³ For Q2 2020, the global working hours are estimated to further fall by 14.0 percent on a YoY basis, equivalent to 400 million full-time jobs. Advanced economies such as the US, the UK, Canada, Germany, and France were the most affected.

Availability of comparable information is a challenge in some migrant-rich countries such as those in the Gulf region; however, ILO estimates suggest that the region suffered severely from lockdowns and business closures during Q2-2020. Among the most affected in the labor market were the almost 1.6 billion informal-economy workers. Due to the fear of disease spread, almost all the countries adopted border closures and put in place travel restrictions. The abrupt suspension of flights made it virtually impossible for returning migrants or travelers to

Number of Overseas Pakistanis Living and Proceeded for Work/Migration Table 6.1.1

	No. of Overseas Pakistanis* as on Dec 2017	No. of people proceeded for work/ migration (During 2018-2020) **
Saudi Arabia	2,600,000	681,844
UAE	1,500,000	745,202
Oman	271,143	104,899
Qatar	140,000	57,900
Bahrain	117,000	25,729
Kuwait	107,575	1,407
Malaysia	75,235	30,650
UK	1,470,000	NA
USA	1,000,000	NA
Canada	350,000	23,000
Australia	100,000	NA
Others countries	1,109,779	10,613
Total	8,840,732	1,681,244

* Number of overseas Pakistanis living, working and studying in destination countries. **For UK, USA, Canada, and Australia, primarily the figure shows migration for permanent residency.

Source: Bureau of Emigration and Overseas Employment

¹² For details, see SBP’s Q3-FY20 Report on the State of Pakistan’s Economy.

¹³ Source: ILO Monitor: “COVID-19 and the world of work”. Fifth edition updated estimates and analysis, June 30, 2020. These estimates are based on working week comprising 48 hours.

reach their home countries, and left thousands of them stranded at airports and land borders. The conditions became more challenging for workers facing sudden dismissals and those who lost their job-linked visas, accommodations and health facilities in the host countries.

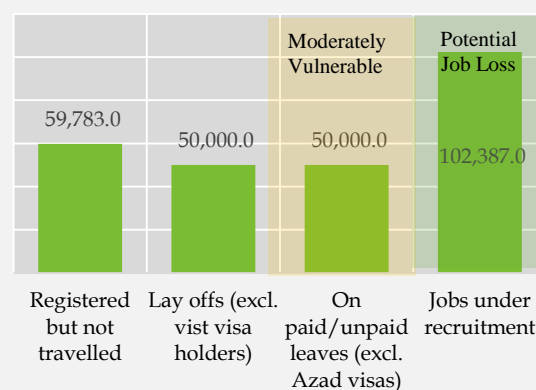
The Current Diaspora of Pakistan’s Migrants and the Impact from Covid Shock

According to the official estimates from Bureau of Immigration and Overseas Employment (BEOE), more than 8.8 million Pakistanis were living abroad as of December 2017. Of these, 54 percent resided in the Gulf region, and the rest in other destinations, including Europe, UK, US, Canada, and Australia. Furthermore, during the last three years, around 1.7 million people left for different destinations, of which around 98 percent proceeded for employment in the Gulf region and only a small fraction went to acquire permanent residency in high-income countries (Table 6.1.1).

During the Covid-19 crisis, BEOE records reveal multiple channels of potential job losses for migrant Pakistanis (Figure 6.1.1):

- (i) Over 100,000 overseas job for which the recruitment process was going on in Pakistan, was disrupted due to Covid and is not going to recover unless the recruiting projects are revived. The Bureau categorizes this category as a potential loss.
- (ii) Around 50,000 Pakistani migrants faced layoffs in different countries. These jobs may not be recovered in the short term and are thus extremely vulnerable.
- (iii) Around 60,000 Pakistanis were recruited for overseas work, but could not proceed abroad due to travel restrictions and suspension of flight operations. The Bureau also categorizes these jobs as extremely vulnerable.
- (iv) In addition to these, 50,000 emigrants (Azaad Visa excluded) returned on paid/unpaid leaves as of June 20. These workers have not been laid off, but their job continuation entails risk.

Figure 6.1.1
Number of Pakistanis Facing Actual and Potential Job Loss



Source: Bureau of Emigration and Overseas Employment

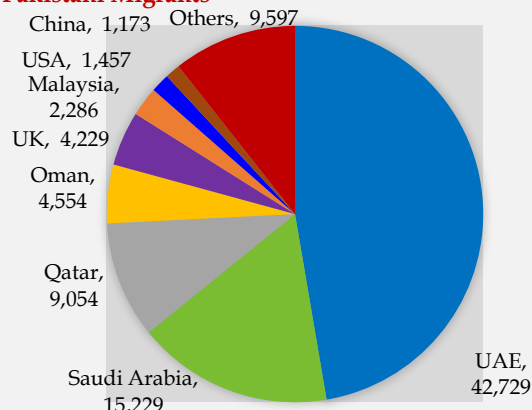
For most of the returning workers, the lockdowns resulted in permanent cessation of income along with the loss of legal status and end of accommodation and health benefits associated with employment. In case of forced dismissals, workers also did not receive compensation, and other dues and therefore found it difficult to arrange travel expenses on their own. The recent figure of stranded Pakistanis in different destinations is highly skewed towards the Gulf region with more than 91 percent in only two countries, i.e., Saudi Arabia and the UAE (Figure 6.1.1).

Pakistan’s Immediate Strategy to Bring Back Stranded Workers

Initially, the government’s capacity to bring back stranded Pakistanis (both worker and non-worker migrants) was limited, and the relevant authorities faced numerous challenges in tracing stranded citizens due to lack of a comprehensive database. In addition, the country did not have any testing capacity to screen the novel disease and could not meet the demand for all returning migrants.

In March 2020, the government established the National Command and Control Centre (NCOC) with the mandate of taking all stakeholders on-board, synergizing and unifying national efforts to prepare a national framework against the spread of Covid-19. The NCOC played a major role in designing and implementing a framework for bringing back stranded citizens. The airspace closure bought some time to initiate key measures, such as registration of stranded overseas Pakistanis, setting up of quarantine facilities at

Figure 6.1.2
Country-wise Repatriation of Pakistani Migrants



Source: NCOC/MOFA

different airports and in cities, and increasing testing capacities and designing track and trace mechanisms. The whole process was built on coordinated effort of embassies, foreign missions, Ministry of Foreign Affairs (MOFA), Ministry of Overseas Pakistanis, health ministries, Ministry of Aviation, district administrations, FIA and the armed forces. Once all the necessary measures were put in place, the government started special flights to return stranded Pakistanis; in this operation, the national airline flew 490 special flights and repatriated 90,308 citizens during April-June 2020 (Figure 6.1.2).

A Reintegration Process of the Returning Workers during Covid-19 Should be Stepped Up

Given the expected slowdown in host economies, unemployment rates are expected to remain high in many migrant destination countries for some time. It is important to recall here that even before the Covid-19, important migrant destinations, including Saudi Arabia, Kuwait and others, had started internal reform processes and took comprehensive measures to encourage recruitment of local workers. Many GCC countries offered generous financial packages to support the retention of local employees, and indirectly discouraged retention of foreign workers. Now, with the Covid-19 crisis, the demand contraction and a dull crude oil market has further weakened the economic outlook of oil-exporting economies. Under such circumstances, a complete return to pre-Covid migrant employment levels does not appear in sight, at least over the next two years.

In this context, manpower exporting countries have begun focusing on reintegration mechanisms for returning migrants in the domestic labor market. A number of countries, including Indonesia, Philippines, Cambodia, Mexico and Sri Lanka, have been following national frameworks for the reintegration of returning workers under national migration legislation and policy frameworks. These existing frameworks promote and ensure delivery of sustainable reintegration services to returning workers. In coming months, thousands of repatriated Pakistanis will require similar reintegration assistance in the form of financial support, entrepreneurship facilitation, skill upgradation and job resumption. Therefore, a well-planned and coordinated strategy is needed at provincial and federal level to address social and economic consequences of mass repatriation and cater to the basic needs of the returned migrants.

The Ministry of Overseas Pakistanis and Human Resource Development (OP&HRD) has also started developing a reintegration strategy with the consultation of relevant stakeholders, including Ministry of Foreign Affairs, and BEOE. Under the plan, different agencies like Small and Medium Enterprises Development Authority (SMEDA), National Vocational and Technical Training Commission (NAVTTTC), Benazir Income Support Program (BISP), Overseas Pakistanis Foundation and National Youth Development Framework (NYDF), are also to play a crucial role in providing necessary support to returning workers:

(i) **Return:** This process comprises collection and compilation of data for the impact assessment and addressing challenges to labor migration and sharing of the same with all stakeholders. In this process, Ministry of Foreign Affairs has a leading role in collecting personal details of returning migrants, which is then used by local and international airlines. The government ensures the proper quarantine arrangements for returning migrants at airports, centers and home.

(ii) **Reintegration:** This process involves facilitating returnees to obtain jobs in national and international job markets through upskilling and certification. The returning migrants are required to register at a specified link on the Overseas Employment Corporation (OEC) website and share different dimensions of personal details, including skill level, education attained, reason for return etc. The registration data would be shared with the Ehsaas program, NAVTTTC, NYDF, SMEDA, and Employees' Old-Age Benefits Institution (EOBI).

(iii) **Claims:** The complaint redressal mechanism ensures the recovery of unpaid compensation, retirement benefits and other dues of returning migrants. Once the returning migrant lodges a complaint for unpaid dues against the foreign employer, the overseas ministry and other relevant authorities may pursue legal actions for early resolution of grievances.

(iv) **Social inclusion:** This includes social protection to returning migrants by offering them loans for entrepreneurship through the NYDF, and emergency cash funds via Ehsaas cash transfers. The social safety net will also provide assistance in paying the school fees of children of returning migrants.

Planning, Execution and Monitoring of the Reintegration Process: Some Guidelines from the IOM (UN) framework

It is encouraging to note that the concerned authorities have been able to outline the broad contours of a reintegration strategy for returning migrants, it is now imperative to lay out step-by-step measures and develop key performance indicators for the effective implementation of reintegration strategy. Furthermore, we also envisage a greater role of data management and geographical mapping of the returning migrants. In addition to skills development institutions and those that exclusively cater to overseas Pakistanis, we also see an important role of banking system, and SECP in a more successful absorption of returning migrants in the domestic economy. In this process, the guidelines of IOM on reintegration assistance may provide a strong foundation for the proposed strategy.

- The government is already developing the database of returning workers and recording the existing skill and education levels, nature of occupation, job status etc. The scope of database can be enriched with other features of returnees including their existing socioeconomic conditions, dues/complaints against foreign employers, monetary needs, aptitudes and interests. In addition, the database may include information on existing employment and business opportunities, potential growth sectors, and local ecosystem. These information synergies may facilitate development of evidence-based integration programs and harmonize returnees' needs with prevailing resources and opportunities.
- At the individual level, the case management approach can be used to address discrete nature of vulnerabilities of returning migrants, such as financial position, health condition, etc. This approach takes into account individual circumstances including migratory experiences, reason of return, existing skills and capacities of returning migrants and offers tailored assistance in the form of cash, in-kind support or other facilitation measures. In addition, services like skill development & vocational training, job placement, business development support, easy access to banking services and loans etc. can also be offered to returning migrants.
- In case where a large number of returning migrants belong to specific areas or communities, community level interventions can be used to mitigate the concerns of non-migrant population, including families of returnees. In this layer, different approaches can be used to support the economic reintegration at community level, such as, collective income generating activities in the form of agricultural cooperative farms, artisan groups, youth employment programs etc. and financial support activities like collective investment schemes, group-based micro credit and collective saving schemes etc.
- Once the process of mapping the assigned roles and responsibilities is completed, the ministries and institutions should articulate a step-by-step progression of different but interlinked activities, starting from registration and recording of returning migrants, to ensuring social security coverage, easing redress mechanism, and recognition and certification of existing skills.
- At each level of intervention, a conceptual framework should be adopted to monitor and evaluate the intended objectives. Monitoring and evaluation procedures may assist policy makers to determine the current progress of planned activities and identify existing gaps in the implementation of specific programs at different stages.
- Commercial banks and microfinance institutes are already playing a key role in mitigating the impact of Covid-19 by providing support to the economy. These services may be extended to returning migrants and families of non-resident Pakistanis facing difficulties. Similarly, the role of the SECP and tax authorities in facilitating the setting up of new enterprises and offering tax amnesties to returning migrants, could also be mulled over.
- While the short- to medium-term focus seems appropriate given the abruptness of the Covid-19 crisis, the government must also frame a long-term view and adopt a comprehensive national migration policy. The existing framework does not share any comprehensive action plan to address the problems of migrant workers in case of forced repatriation.
- The government must improve governance framework in migration-related operations to improve policy effectiveness. As per the ILO's assessment, such operations in Pakistan currently face multiple challenges, such as the absence of properly designed systems, weak standard operating procedures, inadequately trained assigned staff and coordination weaknesses among different departments.¹⁴

¹⁴ ILO (2016), "Where to go for help: Pakistani migrant workers' access to justice at home and in Gulf Cooperation Council Countries."

Financial Account

In FY20, the net financial inflows were recorded at US\$ 7.7 billion, 34.6 percent lower than US\$ 11.8 billion received in FY19. While the Covid-19 outbreak restricted the surging foreign portfolio inflows, foreign direct investment and inflows under other liabilities remained largely unaffected by the outbreak of the pandemic. The net inflows in foreign liabilities remained lower, as both gross borrowing and retirements in FY20 were higher than the last year.

Foreign direct investment

Net FDI inflows in Pakistan surged 88 percent to US\$ 2.6 billion in FY20, compared to US\$ 1.4 billion received in FY19. Actually, in the first three quarters of FY20, the FDI grew 136 percent, while declining marginally in the fourth quarter (Table 6.4). This nominal decline in net FDI in Q4-FY20 was in sharp contrast to the marked slowdown in the global foreign investment trend prevailing in the second half of the FY20. Widespread lockdowns imposed by the governments across the globe amid the risk of Covid-19 spread, specifically in Q4, slowed down the

Sector-wise Inflow of Net FDI in **Table 6.4**
million US\$

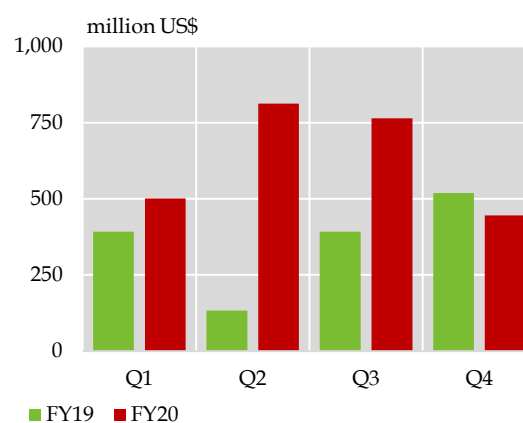
	FY18	FY19	FY20	Q4	
				FY19	FY20
Power	1,179.5	-323.9	764.3	29.2	21.9
Construction	40.4	70.2	20.7	14.6	9.0
Financial business	400.3	286.5	273.8	38.9	63.3
Oil & Gas	372.0	349.8	311.4	82.1	93.1
Pharmaceuticals	15.9	63.2	34.6	8.1	6.0
Telecommunication	100.1	-77.6	622.5	79.8	157.7
Electrical	22.2	153.4	164.3	37.8	10.1
Textile	49.7	76.8	37.7	23.0	6.3
Others	600.3	764.0	332.1	143.8	60.6
Total	2,780.3	1,362.4	2,561.2	457.3	428.0
<i>of which</i>					
CPEC	1,064.7	-267.6	724.2	39.5	15.6
non-CPEC	1,715.6	1,630.0	1,837.0	417.8	412.4

Source: State Bank of Pakistan

worldwide FDI flows. As per the UNCTAD (2020), the announcements in new greenfield investment projects and cross-border mergers and acquisitions fell globally by more than 50 percent in the initial months of 2020 from last year.¹⁵ Besides, new investments in infrastructure projects declined by more than 40 percent. Moreover, as reinvested earnings account for more than 50 percent of the total global FDI flows, earnings expectations and thus its reinvestment for 2020 between February and May for the majority of the top 5,000 multinational enterprises (MNEs) across the world were revised downward by more than 35 percent.¹⁶

Despite these global FDI trends, the inflows to Pakistan declined marginally to US\$ 428 million in Q4-FY20, from US\$ 457 million in the same period last year (Figure 6.7). Substantial inflows in the telecommunication and in oil and gas exploration sectors prevented the overall FDI from sagging sharply in Q4-FY20.

Quarterly Net FDI Inflows **Figure 6.7**



Source: State Bank of Pakistan

Telecommunication and power sectors were the major recipients of the inflows during the year. While a one-off payment from multinational cellular companies for renewal of their operating licenses in Pakistan led to increased inflows in telecommunication, upturn in activity in the CPEC-related projects led to inflows in power and the electrical

¹⁵ World Investment Report 2020, UNCTAD.

¹⁶ The global FDI flows are forecast to decrease by up to 40 percent in 2020, compared to their 2019 value of US\$ 1.54 trillion (source: World Investment Report 2020, UNCTAD).

machinery sectors. Furthermore, some key entities in oil & gas exploration sectors also continued to receive inflows for their operational requirements.

More than 40 percent of these net FDI inflows were sourced from China and Hong Kong, and a significant part of these inflows were for CPEC-related power projects. Moreover, a Chinese company operating in Pakistan received an intercompany loan of US\$ 190 million for working capital needs from its parent company.

Portfolio Flows in Pakistan

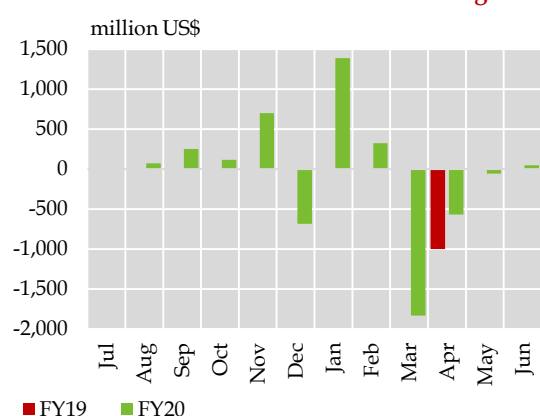


Figure 6.8a

Source: State Bank of Pakistan

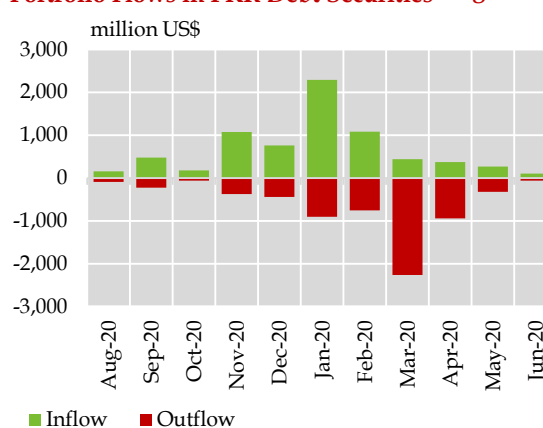
Foreign portfolio investment

In FY20, activities in the local currency debt securities largely drove the portfolio investment, with net portfolio inflows surging to US\$ 2.1 billion during Jul-Feb, and then reversing to a net outflow of US\$ 2.7 billion in the Mar-Jun period (Figure 6.8a). It is important to highlight that the reversal in capital flows in this latter period was not unique to Pakistan. The outbreak of the Covid-19 pandemic, specifically in advanced economies, led to a global flight of capital from emerging and developing economies.¹⁷

Further disaggregation shows that the Pak Rupee debt instruments received record gross inflows during FY20 (Figure 6.8b). This was

the first time that the domestic debt market instruments were able to attract global fund managers, despite offering higher returns on these instruments in the past. Attractive rates offered on the local currency instruments; initiation of various reforms for the local and foreign investors, besides the recent adoption of market-based exchange rate, led to an upsurge in inflows in these instruments.¹⁸ On aggregate, the net outflows in FY20 amounted to US\$ 521 million, much lower than the US\$ 1,418 million registered in FY19. In FY20,

Portfolio Flows in PKR Debt Securities Figure 6.8b



Pakistan retired US\$ 1.0 billion of maturing Sukuk in December 2019, while in FY19, the country had retired US \$ 1.0 billion Eurobond in April 2019. Similar to debt securities, the outflow from equities also decelerated to US\$280 million, while this amount was US\$ 415 million in FY19.

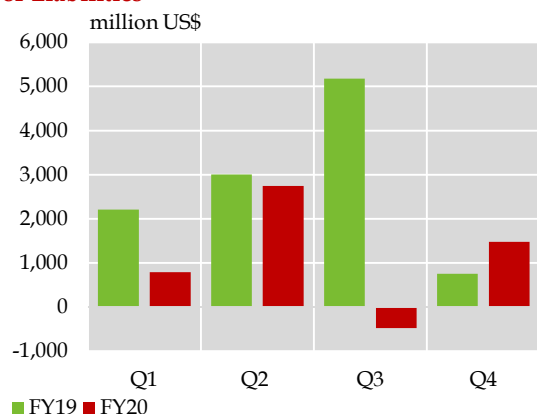
Net incurrence of liabilities

The net inflow of foreign liabilities increased to US\$ 1.7 billion in Q4, largely due to a US\$ 1.4 billion loan received from the IMF under the Rapid Financing Instrument (RFI) to mitigate the economic impact of the Covid-19 shock (Figure 6.9). In Q4-FY19, the country had received US\$ 0.8 billion of net inflows in foreign liabilities.

¹⁷ For further discussion, see SBP's Q3-FY20 Report on the State of Pakistan's Economy.

¹⁸ For details on tax incentives offered to investors, see SBP's State of Pakistan's Economy Report for Q1-FY20.

Quarterly Flows in Net Incurrence of Liabilities Figure 6.9

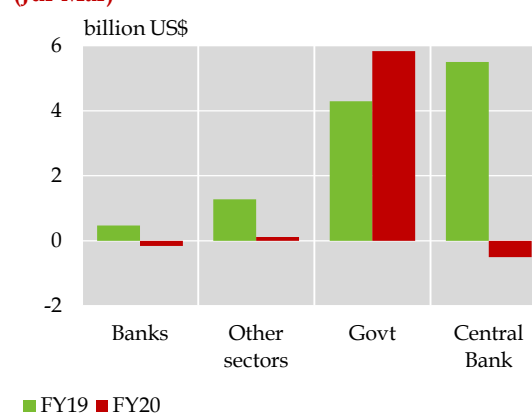


Source: State Bank of Pakistan

Despite increased inflows in Q4, the full-year net inflows remained much lower: US\$ 5.3 billion compared to US\$11.5 billion in FY19. This decline mainly represents the difference in foreign exchange deposits held with SBP. Specifically, in FY19, the central bank had received US\$ 5.5 billion in foreign exchange deposits from friendly countries to shore up its BoP position; no such inflows were received in FY20. Instead, US\$ 500 million was withdrawn from these deposits during FY20. Moreover, banks retired US\$ 163 million in FY20 whereas they had borrowed US\$ 500 million last year.

As far as the government was concerned, it borrowed 58.6 percent more (in gross terms) from last year. These inflows were mostly in long-term loans, including US\$ 2.8 billion from the IMF, and US\$ 767 million via the Saudi Oil Facility. At the same time, it made

Net Incurrence of FX Liabilities (Jul-Mar) Figure 6.10



Source: State Bank of Pakistan

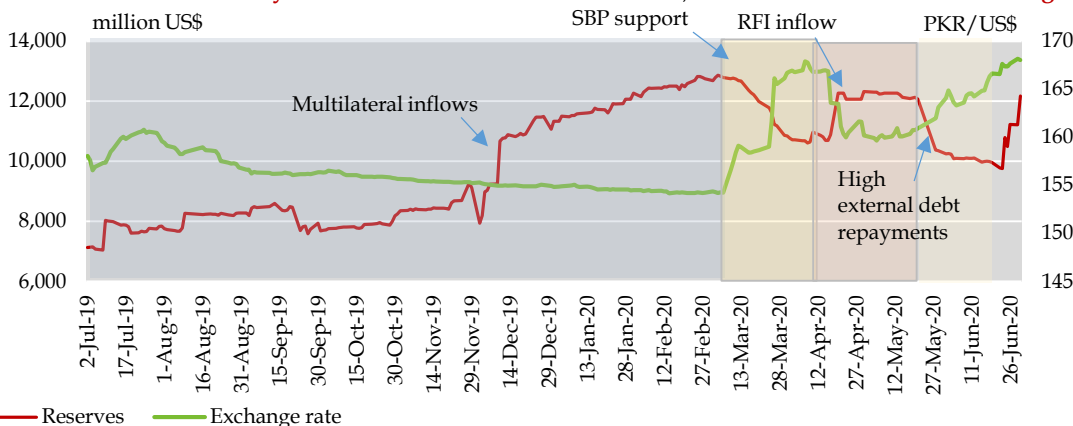
22 percent higher retirement, of US\$ 7.3 billion, as compared to last year (Figure 6.10). On net basis, the government incurred \$ 1.5 billion more liabilities compared to FY19.

6.3 Reserves and Exchange Rate

After dropping for three consecutive years, and reaching US\$ 7.3 billion in FY19, SBP's liquid foreign exchange reserves recovered to US\$ 12.1 billion in FY20. A significant reduction in the country's current account deficit along with multilateral financing helped this recovery (Figure 6.11). Besides, reserves' quality also showed an improvement, as reflected in a sharp unwinding of the swap book as well as favorable trend in reserves adequacy.

Importantly, during July-Feb FY20, the SBP's reserves had posted a sharp increase of US\$

SBP Reserves and PKR Parity

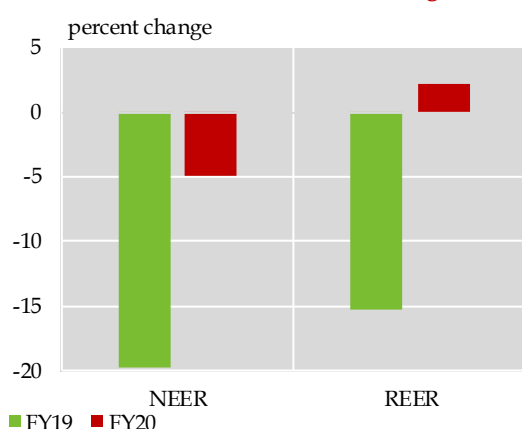


Source: State Bank of Pakistan

5.6 billion and reached US\$ 12.8 billion. This allowed the SBP to unwind its short-term forward and swap contracts to the tune of US\$ 5.2 billion during Jul-Feb FY20 and support the market when it came under excessive pressure due to portfolio outflows. While the IMF's disbursement of US\$ 1.4 billion under the RFI in April eased some pressure, the SBP's reserves again came under pressure in May due to high debt servicing.

Despite this improvement in Jul-Feb, the Pak Rupee depreciated by 6.3 percent during the full year. Following the introduction of the market-based exchange rate system in May 2019, the movement in interbank exchange rate largely followed market fundamentals. For example, inflows in the portfolio investment and multilateral support in Jul-Feb period created an upward pressure on the Pak Rupee, leading to a 2.5 percent appreciation vis-à-vis the US Dollar. However, portfolio outflows following the spread of Covid-19 led the Pak Rupee to depreciate by 9.0 percent in Mar-Jun FY20; its worth noting that other EMs also experienced similar currency depreciations during the period (Section 6.1). Following the nominal exchange rate, Pak Rupee's nominal effective exchange rate (NEER) depreciated 5 percent against a basket of currencies during the year. However, this depreciation was not enough to offset the rise

Trend in NEER and REER **Figure 6.12**



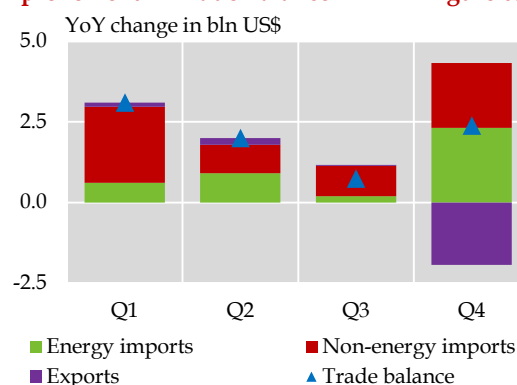
Source: State Bank of Pakistan

in relative prices, which led to an appreciation of 2.3 percent in REER during the year (Figure 6.12).

6.4 Trade Account (Customs Records)¹⁹

The trade deficit shrank 27.2 percent to a five-year low of US\$ 23.2 billion in FY20. Exports were on track to record positive gains until March 2020, before declining sharply in the fourth quarter amid the Covid-19 pandemic (Figure 6.13). Effectively, the entire reduction in the trade deficit came from imports, which fell to a nine-year low in the year.

Improvement in Trade Balance* **Figure 6.13**



*Positive/negative values indicate respective contributions to trade balance

Source: PBS

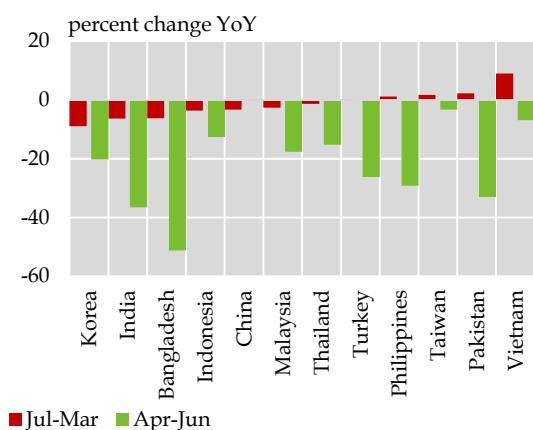
Both non-energy and energy imports had been dropping throughout the year on account of the macroeconomic stabilization policies and suppressed imported energy demand (amid switching in fuel sources in favour of indigenous coal and hydropower). However, the drop in imports deepened significantly in Q4, when energy imports fell to a 14-year low, aided by an over 50 percent drop in global oil prices.

For non-energy products, factors like regulatory measures, weak consumer demand, inventory build-ups from last year, and higher domestic production, led to sizable drop in import demand of multiple industries, including transport, construction-allied, and

¹⁹ This section is based on customs data reported by the PBS. The information in this section does not tally with the payments record data, which is reported in Section 6.1. To understand the difference between these two data series, see Annexure on data explanatory notes.

edible oil, during Jul-Mar FY20. In Q4, these declining trends were accentuated by the Covid-related lockdowns, with transport imports hit particularly hard.

EMs' Export Growth in FY20 **Figure 6.14**



Data sources: Haver Analytics & PBS

(Figure 6.14), on the back of volume-led increases in major export products, such as apparel, rice, meat and leather items. The exchange rate realignment with market fundamentals, higher sales tax refunds, extension in size and scope of the SBP's concessionary Export Finance Scheme, and provision of electricity at regionally competitive rates, were all important factors in this regard. However, after the Covid-19 outbreak, demand for clothing items in Pakistan's major export destinations in the west was hit particularly hard; as a result, textile exports of Pakistan as well as other major Asian suppliers suffered in Q4. While global demand for food items (especially wheat and rice) surged post-outbreak as major importers accelerated purchases to shore up domestic supplies, Pakistan could not fully capitalize owing to domestic supply-side issues (Box 6.2).

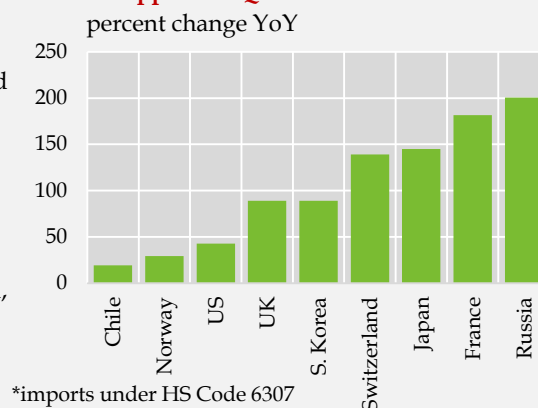
For exports, Pakistan was performing better than many EM peers before the pandemic

Box 6.2: Export Performance of Emerging Markets and Pakistan after Covid-19 Outbreak

The economic fallout from the Covid-19 pandemic has been severe. Export performances of many EMs have suffered, though some have seen more drastic export declines than others. This Box identifies some major driving forces behind this disparate export performance, by focusing on products whose import demand surged after the pandemic, and on those whose import demand dropped significantly.

Three major trends stand out. First, global demand for textile products underwent a shift towards medical and surgical goods like masks and away from apparel.²⁰ Second, demand for electronics items rose sizably, helping support the tech-related exports of some EMs. And third, demand for food items rose, as major importers shored up domestic supplies amid fears of supply disruptions, hence propping up agricultural exports of some EMs.

Growth in Imports Quantum of Medical Supplies in Q4-FY20* **Figure 6.2.1**



*imports under HS Code 6307

Source: ITC

Textiles: As retail sales dropped significantly from March onwards across the major advanced economies, the clothing and apparel sector was particularly hard hit.²¹ Unlike other household or electronics products, the

²⁰ Based on HS-4 level trading data of major economies (China, US and EU members), masks are classified under HS Code 6307, mostly under 'other textile made-ups' or 'other textile materials'. In this Box, data for this HS Code is used to analyze the trade of masks and similar medical coverings. It is possible that at the more granular (HS-8) level, some non-medical related items would also be included.

²¹ In the US, retail sales of clothing and accessories dropped 57.6 percent YoY during Q4, against the 7.5 percent drop in the overall retail sales (excluding motor vehicle and part sales). In the EU-27, sales of clothing and related items dropped 46.3 percent, whereas the overall retail sales excluding vehicle sales fell 6.6 percent (sources: US Census Bureau and Eurostat).

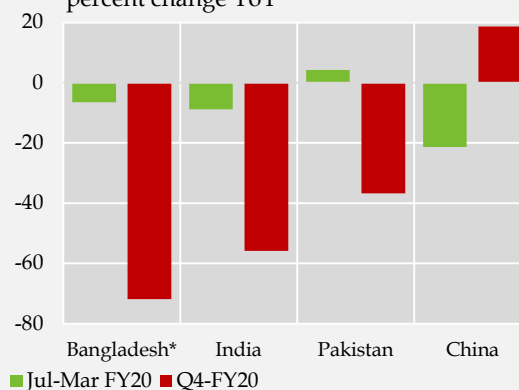
majority of overall clothing sales still occur via retail stores instead of via e-commerce platforms, and were therefore more impacted by store closures.²² This led to a sizable drop in import demand for apparel items from the advanced economies, which severely impacted the apparel exports of EMs (see **Exports** section below). However, the demand for medical and surgical masks rose exponentially during the period. In the advanced economies, imports under the relevant HS Code shot up (**Figure 6.2.1**), with most of it being met by China. As a result, China's overall textile exports rose 18.7 percent YoY in Q4-FY20, with the surge in shipments of masks and other textile-based medical gear entirely offsetting the drag from lower exports of apparel and low value-added products.

However, other major textile exporters, like Pakistan, and also Bangladesh and India, could not adjust their production mix as rapidly and so missed out on capitalizing from the rising demand for such products. As a result, the overall textile exports of all three South Asian exporters dropped sharply in Q4 (**Figure 6.2.2**). One reason was the early imposition of lockdowns by China (in January), which allowed it to control the outbreak and then resume manufacturing activities in time to meet the surging global demand for personal protective equipment (PPE). In contrast, the South Asian economies imposed the lockdowns relatively later (by late March), which meant that their firms were mostly shut down and could not effectively capture the global demand for PPE in Q4. And second, China was already a part of the global medical goods supply chain, with its own set of safety standards established (like KN-95); this allowed it to move quickly to ramp up production and meet external demand, whereas Pakistan and other EMs could not.

Electronics: As millions of workers and students adjusted to remote working and e-learning, demand for electronics items, like personal computers (PCs) and tablets, rose significantly.²³ Furthermore, corporations had to upgrade their network infrastructures to allow workers to connect remotely to their office systems. These developments created strong import demand across the electronics supply chain for finished electronics items (PCs and tablets) as well as for parts and components (circuit boards, semiconductors, etc.) and accessories for computer networks (**Figure 6.2.3**). This demand was met by countries like China and Taiwan, which are well-integrated in the global electronics value and supply chains.²⁴ As a result, the electronics sector further supported export performances of these countries.

Food: As global logistics became disrupted, ensuring food security became a priority for large food importers,

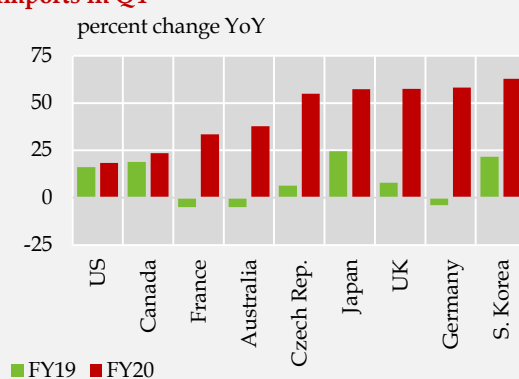
Growth in EMs' Textile Exports **Figure 6.2.2**
percent change YoY



*during Apr-May

Source: Haver Analytics, PBS and Bangladesh Bank

Growth in Computer & Tablet Imports in Q4* **Figure 6.2.3**
percent change YoY



*Imports under HS Code 8471.30

Source: ITC

²² For instance, in the US, e-commerce platforms accounted for 8.5 percent of overall sales of 'clothing and other merchandise items' in Q4-FY20. That compares with a higher share of 18.3 percent of overall e-commerce sales in total retail sales of products excluding vehicles and auto parts (source: US Census Bureau).

²³ Global PC sales – comprising notebooks, desktop PCs and workstations – rose 11.2 percent YoY in Q4-FY20, according to a July 9-dated report from the International Data Corporation, an ICT-focused market intelligence firm. Similarly, global tablet sales were projected to have risen 17 percent in the same period, as per Strategy Analytics, another data analytics firm.

²⁴ Taiwan's exports of electronic components and information and communications equipment rose 18.1 percent in Q4-FY20. This rise partially offset the 23.1 percent drop in exports of all other items, and led its overall exports to decline by a relatively contained 3.3 percent in the quarter (source: Haver Analytics).

particularly China and the US. Food items whose import demand rose included cereals, such as wheat, rice and soybeans. As the pandemic initially played out in March and April, various agri commodity exporters – including those in Eastern Europe (wheat) as well as India (rice) and Vietnam (also rice) – either signaled their unwillingness to export the commodities to ensure sufficient supplies at home, or placed outright bans on exports. However, from end-April and May onwards, these restrictions were lifted and the grain trade became smoother.

For rice, the demand surged in traditional markets in the west, and also in some major African and East Asian countries (April-onwards data for which are not yet available). Here, India and Brazil emerged as clear beneficiaries, as both recorded significant increase in exported quantities of rice, particularly from April onwards (Figure 6.2.4). However, Pakistan could not do the same, with rice export quantities dropping in the quarter. It is also important to note that rice demand was also likely strong from the Middle East economies, but the official import data for these countries for the relevant period is not yet available.

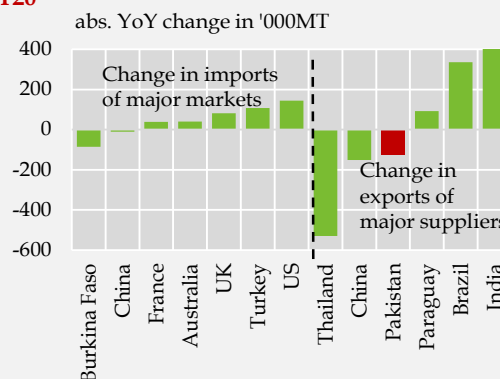
Meanwhile, global demand for wheat surged, mainly from China and some other countries, amid efforts to stockpile the staple (Figure 6.2.5). This demand was met by traditional wheat exporters in Eastern Europe (Russia and some other Baltic nations), and Europe (France). Similar to rice, wheat demand was also said to be strong from some African countries, but official export data for the Apr-Jun period for these countries is not yet available. Regardless, Pakistan could not benefit from this surge in wheat demand, especially from the neighboring China, as lower domestic production, supply bottlenecks, and rising prices ruled out any export possibility.

While multiple structural factors have constrained Pakistani firms from joining the global value chains for electronics and other high-tech products – and therefore not benefitting from the post-outbreak surge in demand for these items – the country also could not fully tap the sudden surge in demand for food items from March 2020 onwards. Given that agriculture forms around a fifth of GDP, such an outcome can be deemed sub-optimal, and thus requires greater efforts to increase production, and have access to real-time stock positions, to allow for better export planning.

Exports

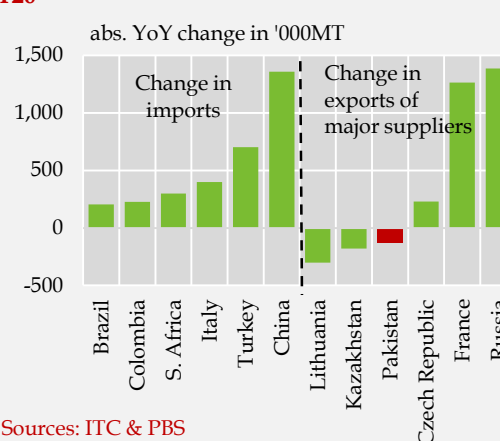
The country's exports outperformed many other EMs in the first three quarters of FY20, as volume-led increases were noted in a wide range of products (Figure 6.15). However, following the Covid-19 pandemic, exports dropped sharply in Q4, and led to a 6.8 percent decrease in full-year to US\$ 21.4 billion (Table 6.5). This also delayed the expected benefits from China-Pakistan FTA Phase- II, which became effective from January 2020 onward and was expected to provide boost to Pakistan's exports.

Demand & Supply of Rice in Q4-FY20 Figure 6.2.4



Sources: PBS, DGCIS (India) & ITC

Demand & Supply of Wheat in Q4-FY20 Figure 6.2.5



Sources: ITC & PBS

Textile exports

Textile exports declined by 6.0 percent to US\$ 12.5 billion in FY20, with Q4 shipments declining to the lowest since Q1-FY07. In contrast with FY19, when the price decline had dominated the improved quantum effect, lower quantum exports this year, especially from March onwards, overshadowed some improvement in unit prices for apparel items (Figure 6.16). It is pertinent to mention that prior to Covid-19, textile exports had reached

Pakistan's Major Exports during FY20

Table 6.5

million US\$

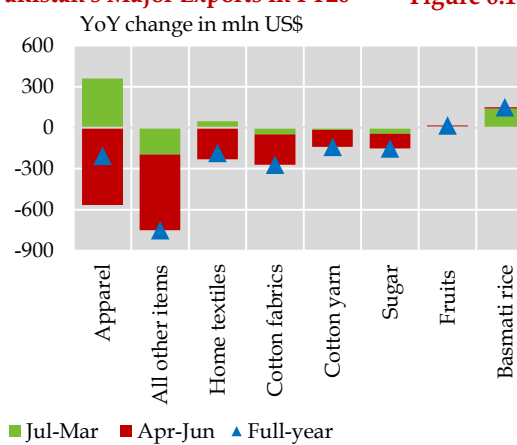
Items	FY19	FY20	Abs. change	Quant. effect	Price effect
Food group	4,607.4	4,361.2	-246.2	-	-
Rice	2,069.6	2,175.5	105.9	19.5	86.4
Fish & prep.	438.7	406.7	-32.0	-41.1	9.1
Fruits & veg.	649.4	730.3	80.9	-56.5	137.4
Meat & prep	242.7	304.2	61.5	66.1	-4.5
Textile group	13,328.2	12,526.5	-801.1	-	-
Cotton yarn	1,125.4	984.9	-140.5	-55.5	-85.0
Cotton fabrics	2,101.8	1,829.9	-271.9	-342.9	71.0
Apparel	5,553.6	5,347.1	-206.5	-599.9	393.4
Bedwear	2,261.8	2,150.8	-111.0	-52.7	-58.3
Towels	786.1	711.3	-74.8	-74.0	-0.9
POL group	477.2	273.2	-203.9	116.1	-320.0
Crude oil	285.4	185.9	-99.6	-49.1	-50.5
POL products	127.8	40.7	-87.1	236.2	-323.3
Other manuf.	3,361.6	3,036.1	-325.5	-	-
Sports items	308.6	262.4	-46.2	-	-
Leather	252.3	184.2	-68.1	-52.2	-15.9
Leather prods.	485.7	474.0	-11.7	-32.2	20.6
Medical items	388.4	355.6	-32.8	-	-
Chemicals	606.0	502.1	-103.9	-	-
Footwear	122.4	125.9	3.5	7.1	-3.6
Cement	271.7	259.5	-12.3	30.0	-42.3
Exports	22,958.3	21,393.7	-1,564.6	-	-

Source: Pakistan Bureau of Statistics

US\$ 10.4 billion in Jul-Mar FY20 – a record high in the nine-month period since FY06.

Two key government measures and some extraneous factors supported this spurt. One was the flat 7.5 cents/KWh power tariff announced to subsidize electricity for the exporting units.²⁵ The second was the government expediting release of sales tax refunds to the manufacturers-cum-exporters.²⁶ These measures eased the industry's liquidity constraints and raised exporters' capacity to process more orders. Also, China has been slowly retreating from the US' and the EU-27's clothing market. With the onset of the US-China trade dispute and Pakistan's continued duty-free access to the EU under the GSP Plus,

Pakistan's Major Exports in FY20 Figure 6.15



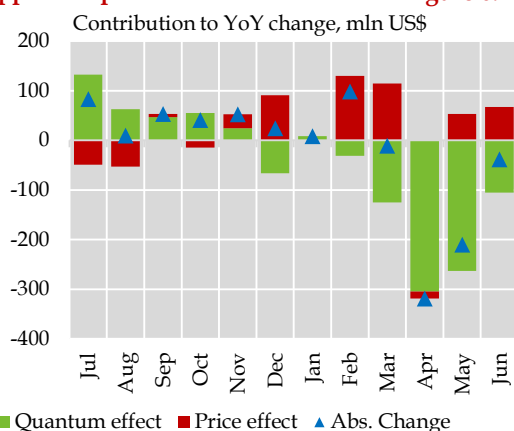
Pakistan expanded its access in both markets, benefitting from China's retreat.

²⁵ Vide S.R.O. 01(I)/2019 to S.R.O. 12(I)/2019, dated January 1, 2019 (source: Ministry of Energy).

²⁶ During FY20, refund claims on sales tax and customs duty amounted to Rs 104.8 billion, 178 percent more than last year, and were processed timely through the new online system called FASTER (source: FBR).

Consequently, in Jul-Mar, Pakistan's apparel shipments to these markets rose, despite a weakening in these economies' overall import demand for clothing in the period (Tables 6.6 and 6.7).

Apparel Exports in FY20 **Figure 6.16**



Source: Pakistan Bureau of Statistics

However, demand for value-added apparel in the major US and EU-27 markets fell heavily in Q4. Amidst a significant slowdown in buying activity, there was a massive build-up of inventories in the US, while retail sales of clothing in the EU also went down

Growth in EU's Quantum Apparel Imports from Major Countries **Table 6.6**

	Jul-Mar		Apr-Jun	
	FY19	FY20	FY19	FY20
Pakistan	5.6	8.9	10.8	-21.4
Bangladesh	9.6	-2.8	2.8	-25.4
India	-3.7	-3.8	-1.1	-42.9
China	1.8	-7.9	-2.1	-39.3
Cambodia	6.1	-12.6	5.7	-40.1
Turkey	6.0	1.9	3.7	-59.0
World	5.2	-3.0	3.5	-36.7

Source: Eurostat

²⁷ In the US, inventories-to-sales ratios for clothing and clothing accessories grew, on average, by 274 percent during Q4-FY20. In contrast, the ratio had, on average, declined 4.4 percent during Dec 2019-Feb 2020. In the EU-27, retail sales of 'textiles, clothing, footwear and leather goods' declined, on average, by 42.8 percent YoY during Q4-FY20; whereas sales had grown slightly in the prior eight months of FY20.

²⁸ Anecdotal evidence suggests that some orders had been diverted towards Pakistan from China in Jan-Feb 2020. China's two major apparel-producing hubs (Guangdong and Zhejiang) were shut down from January 24 till mid-February for New Lunar Year celebrations and then the Covid-19 outbreak.

²⁹ Cotton yarn is among the 313 tariff lines (at HS 8-digit level) that were subjected to tariff elimination as soon as the CPFTA-II Agreement was signed in April 2019. In Jul-Mar FY20, Pakistan's quantum yarn exports to China increased 13.9 percent, while India's decreased by 48.1 percent (sources: PBS and Ministry of Commerce, India).

Growth in US's Quantum Apparel Imports from Major Partners **Table 6.7**

	Jul-Mar		Apr-Jun	
	FY19	FY20	FY19	FY20
Pakistan	4.8	10.1	4.6	-27.6
Bangladesh	7.7	1.8	12.8	-47.2
China	4.3	-16.5	5.5	-44.2
Vietnam	7.2	3.1	4.8	-30.0
India	5.7	-1.7	5.1	-63.4
Indonesia	0.5	-9.6	-3.6	-39.4
Cambodia	2.4	9.7	2.9	-20.0
World	4.6	-6.7	4.0	-44.5

Source: Office of Textiles and Apparel, US Dept of Commerce

significantly.²⁷ These countries reduced their apparel imports from the whole world, including Pakistan, in the wake of Covid in Q4.²⁸

Meanwhile, Pakistan's exports of low-value added textiles (cotton yarn and cotton fabrics) cumulatively fell 12.8 percent to US\$ 2.8 billion in FY20, as compared to a decline of 9.7 percent last year. In Jul-Mar FY20, quantum cotton yarn exports to China increased, as the latter reshuffled its sourcing away from India after the China-Pak FTA Phase 2 was signed in April 2019.²⁹ Nonetheless, falling cotton yarn prices in the international market suppressed Pakistan's export values. Furthermore, unit prices fell much more sharply in Q4, as local and international demand both decreased, leading to a build-up of inventories at the spinning mills. On the other hand, quantum exports of cotton fabric to major destinations, Bangladesh and China, decreased by 20 percent in FY20, in line with the fall in these countries' overall import demand for the product.

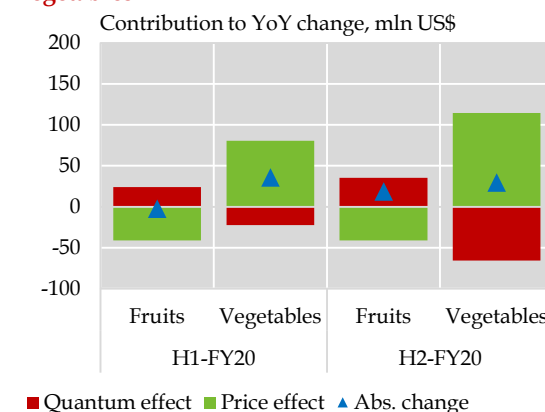
Non textile exports

Among the major non-textile items, rice exports increased by 5.1 percent to US\$ 2.2 billion in FY20; the growth was higher than last year's growth of 1.7 percent. Basmati exports values rose throughout the year, with higher volumes during the first three quarters offsetting the drag from lower unit prices and leading to a 23.4 percent increase in full-year exports to US\$ 783.3 million. Before the pandemic, Pakistani exporters were able to increase their share in the Middle Eastern markets like Saudi Arabia, which imposed regulatory restrictions on Indian rice over excessive pesticide usage.³⁰ Similarly, Pakistan also shipped significantly more basmati rice to the UAE, with at least some of the exports being transhipped to other regional countries like Iran, Iraq, Yemen, Oman and Somalia.³¹ After the pandemic struck, basmati exports values continued to rise, though unlike the Jul-Mar period, the rise in international prices amid global supply disruptions played a dominant role and offset lower export volumes.

On the other hand, non-basmati rice exports dropped 3.0 percent to US\$ 1.4 billion in FY20. China accounted for the bulk of this decline, though Pakistan's exports had, in fact, started to fall even before Covid-19 struck. This is partly because of lower imports by China in general (amid build-up in stocks in earlier years), as well as high base effect for Pakistan's exports from last year.³² Among other countries, Pakistan's non-basmati exports to the Philippines and Afghanistan

Change in Exports of Fruits and Vegetables

Figure 6.17



Source: Pakistan Bureau of Statistics

also dropped due to ample domestic stocks and improved local production in the two countries, respectively.³³

Fruits and vegetables exports grew by 12.5 percent to US\$ 731 million in FY20. Higher quantum played a dominant role in pushing up fruit export values by 3.8 percent on a YoY basis (Figure 6.17), a result of better marketing and packaging by mangoes exporters and high demand for dates in the UAE. In case of vegetables, rising unit prices, especially in H2, led the overall exports to increase in FY20, despite a drop in exports in Q4 amid Covid-related disruptions and a ban on onion exports since March 2020.³⁴

Petroleum group exports fell 42.7 percent to US\$ 273 million in FY20 mainly due to lower shipments of jet fuel to Afghanistan, as NATO forces reduced their presence in the

³⁰ Saudi Arabia implemented stricter quality rules regarding rice imports in September 2019 (source: https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Grain%20and%20Feed%20Annual_Riyadh_Saudi%20Arabia_03-15-2020)

³¹ For details, see the SBP's Annual Report on the State of Pakistan's Economy for FY19.

³² China had imported sizable rice quantities from Pakistan in H2-FY19, following the Prime Minister's visit to the country in November 2018. For details, see SBP's Annual Report on the State of Pakistan's Economy for FY19.

³³ According to the Afghanistan government, the country had raised its rice production by 9 percent in CY19, which saw its imports of rice declining by 44 percent in the year's first three quarters (source: Ministry of Agriculture, Irrigation and Livestock. <https://www.mail.gov.af/en/rice-production-increases-nine-percent>).

³⁴ Ban on onion exports was enforced vide Ministry of Commerce S.R.O No. 238(1)/2020 dated March 24, 2020. This ban lapsed on May 31.

neighboring country.³⁵ Crude oil (condensate) exports also decreased, as local refineries were said to increase their usage of locally extracted crude oil, leading to a decline in volumes available for export. Meanwhile, in H2, a substantial fall in international oil prices played a major role in lowering petroleum group exports.

Lastly, footwear exports fetched US\$ 125.9 million in FY20, 2.9 percent more than last year. A significant volumetric rise was witnessed in the first three quarters, as exporters readjusted their global supplies in response to the changing international trends, which included rising demand for non-leather footwear.³⁶ This pre-Covid performance was good enough to offset the drop in exports in Q4, as demand for footwear from major destinations, similar to clothing items, slumped dramatically.

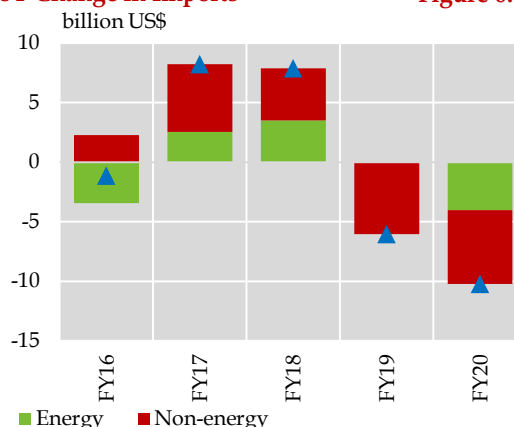
Imports

The country's imports dropped 18.6 percent to a five-year low of US\$ 44.6 billion in FY20 (Table 6.8). While non-energy imports continued on their downward trajectory from last year, as the macroeconomic stabilization measures suppressed domestic demand in the first three quarters, the drastic drop in energy imports in Q4 was responsible for the deepening in the overall import decline in FY20 (Figure 6.18).

Energy imports

The country's energy demand showed signs of stagnation in the year even before the pandemic struck, as weak industrial activity amid the macroeconomic adjustment policies curtailed industries' energy demand. Furthermore, a shift in the power generation mix – towards hydropower (amid ample rainfalls) and coal and away from LNG –

YoY Change in Imports Figure 6.18

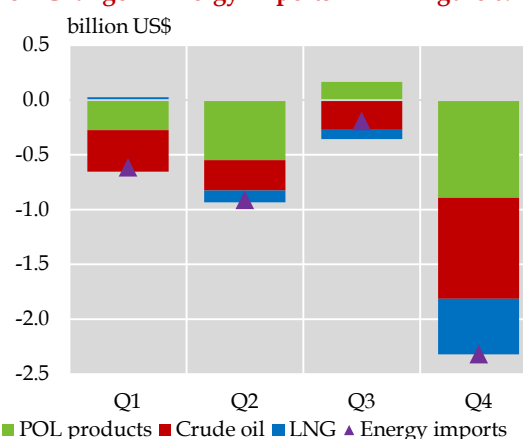


Source: Pakistan Bureau of Statistics

lowered the need for imported energy items in general.

In this backdrop, energy imports dropped by a sizable 27.9 percent to a four-year low of US\$ 10.4 billion in FY20. While imports dropped in all quarters of the year, the decline was particularly steep in Q4 (Figure 6.19), when purchases fell to a 14-year low. The unprecedented fall in global oil prices – down nearly 53 percent YoY in Q4 – played a key role, whereas import volumes of crude oil and LNG also declined noticeably amid lower demand from oil refineries and the power sector, respectively.

YoY Change in Energy Imports Figure 6.19



Source: Pakistan Bureau of Statistics

³⁵ Afghanistan-bound quantum jet fuel exports decreased by 70 percent in H1-FY20.

³⁶ Between FY19 and FY20, the share of quantum leather footwear exports in Pakistan's total footwear exports decreased from 53 percent to 47 percent, while that of non-leather footwear increased from 47 percent to 62 percent. Import mix of top destinations of Pakistan's footwear (USA, Italy, Germany, and the Netherlands) was 47.5 percent leather and 52.5 percent non-leather in FY16. In FY20, the mix was 43.5 and 56.5 percent, respectively (data sources: PBS & ITC).

Pakistan's Major Import Items

Table 6.8

million US\$

Items	FY19	FY20	Abs. change	FY20	
				Quantum impact	Price impact
Energy group	14,441.4	10,411.5	-4,029.9	-	-
POL prods.	6,283.9	4,732.8	-1,551.0	310.8	-1,861.9
Crude oil	4,570.6	2,722.0	-1,848.5	-1,190.6	-658.0
LNG	3,336.5	2,662.2	-674.3	-32.5	-706.8
Agri and chemicals	8,754.6	7,353.7	-1,400.9	-	-
Fertilizer	798.7	568.9	-229.8	-104.0	-125.8
Other chem.	4,452.0	3,694.4	-757.5	-	-
Transport group	3,085.9	1,545.9	-1,539.9	-	-
Cars	1,040.3	577.1	-463.2	-	-
Aircraft & ships	694.0	251.0	-443.1	-	-
Metals group	4,973.9	4,057.6	-916.3	-	-
Steel scrap	1,461.0	1,522.0	60.9	-204.4	265.4
Iron & steel	2,229.2	1,538.0	-691.2	-577.2	-114.0
Food group	5,668.0	5,424.0	-244.0	-	-
Tea	571.7	532.8	-38.9	-3.6	-35.3
Palm oil	1,844.6	1,841.5	-3.1	-103.6	100.5
Pulses	506.0	614.6	108.6	121.5	-12.9
Textile group	3,221.4	2,529.5	-691.9	-	-
Raw cotton	767.5	880.1	112.6	225.0	-112.4
Other textile items	997.8	549.6	-448.2	-	-
Machinery group	8,921.7	8,787.2	-134.6	-	-
Power gen	1,262.6	1,372.9	110.3	-	-
Electrical	1,777.6	2,251.3	473.7	-	-
Cell phones	755.5	1,369.9	481.1	-	-
Other mach.	3,185.0	2,201.9	-983.1	-	-
All other items	5,696.1	4,443.6	-1,252.5	-	-
o/w Coal	1,511.3	1,288.7	-222.6	70.9	-293.5
Total imports	54,763.0	44,552.9	-10,210.1	-	-

Source: Pakistan Bureau of Statistics

For crude oil, import volumes had been declining throughout the year amid low demand from oil refineries, which had curtailed their production to avoid adding to a glut of furnace oil.³⁷ In Q4, however, this declining trend deepened considerably, with quantum imports falling 52.6 percent YoY to a 10-year low. Most of this decline was recorded in the months of April and May, when multiple refineries were operating at a

very low throughput in response to low demand for products from the oil marketing companies (OMCs).³⁸ Given the challenges posed by fluctuating global oil prices and a sudden drop in demand for transport fuel as lockdowns went into effect (by late March), some previously planned oil and LNG imports were slightly pushed back or deferred, as per a global energy industry report and local

³⁷ Furnace oil has a roughly 25 percent share in the output of Pakistan's refineries (source: Pakistan Energy Yearbook 2018).

³⁸ In fact, April 2020 saw the lowest monthly domestic POL production in LSM records going as far back as July 2005, with May 2020 recording the second-lowest production level.

industry stakeholders.³⁹ Due in large part to this significant drop in demand in Q4, crude oil imports fell 40.4 percent in full-year FY20 to US\$ 2.7 billion – a three-year low.

Meanwhile, POL product imports fell by 24.7 percent in full-year FY20, with the entire drop coming from lower unit prices. Global oil prices had been range-bound before the pandemic, but dropped sharply from March 2020 onwards in response to a sizable drop in demand and temporary disagreements over supply cuts between OPEC and Russia.⁴⁰ The drop in international prices translated into lower unit prices of Pakistan's POL product imports, and helped offset an increase in import volumes of the items. Overall POL product import volumes rose 4.9 percent in FY20 – mainly due to a 17.3 percent rise in petrol imports.

Before the pandemic, demand for petrol had risen in response to a shift from the alternative fuel (CNG) amid temporary hiccups in CNG supplies (during the winter months), as well as rising differential between CNG and petrol prices.⁴¹ With lower domestic production, the demand had to be met via imports.⁴² In

contrast, demand for HSD was weak amid a slowdown in overall trade activity, and heavy vehicle transporters' issues with the axle load management policy (**Chapter 3**); the lower domestic demand eased the import demand for HSD. Among other POL products, the country did not import any furnace oil at all after July 2019, amid restrictions on power generation from the fuel.

Once the Covid-19 pandemic struck, domestic fuel demand slumped dramatically amid countrywide lockdowns, whereas global oil prices were also dropping sharply. OMCs and refineries scaled down their purchases, but given the general 30-45 day lag in the placement of import contracts and the arrival of fuel at ports, the impact was reflected in lower imports in May. By that time, the drop in demand for transport fuels was bottoming out amid the easing of lockdowns, which led to a recovery in import volumes in June (**Table 6.9**). In fact, June witnessed highest petrol sales since at least July 2013, and highest HSD sales since May 2018, as per data from the Oil Companies Advisory Committee.⁴³ This recovery in demand not only represented the increased mobility during the month, but also

Growth (YoY) in Quantum POL Product Imports & Sales during FY20

Table 6.9

percent change

	Jul-Feb		Mar-May		June		Jul-Jun	
	Sales	Imports	Sales	Imports	Sales	Imports	Sales	Imports
Petrol	1.7	23.7	-17.0	3.3	19.5	12.5	-1.8	17.3
High speed diesel	-13.9	-6.5	-16.8	-5.6	61.5	65.1	-9.8	-0.4
Furnace oil	-22.4	-92.4	-54.0	-100.0	-38.5	-100.0	-32.1	-94.9
POL products	-9.4	4.6	-25.7	-1.4	16.4	21.7	-11.7	4.9
Prods. excl. FO	-6.7	12.3	-19.7	1.9	31.8	42.2	-7.3	12.6

Sources: PBS & OCAC

³⁹ According to an April 29-dated report from S&P Global Platts, one OMC deferred 3 of its regular 5-6 monthly shipments of POL products booked in March for April delivery to May, and cancelled its April tenders altogether (source: <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/042920-pakistan-set-to-resume-oil-product-imports-in-may-as-lockdown-measures-ease-traders>). Other OMCs likely did the same.

⁴⁰ Arab Light oil prices, on average, fell 8.6 percent YoY during Jul-Feb FY20, before dropping by a much sharper 24.1 percent YoY during March-June 2020. Both demand-side (lockdowns) and supply-side issues (temporary increase in supplies by Saudi Arabia and cut in prices of Arab Light and Dubai Fateh variants) were responsible for the price drop.

⁴¹ During Jul-Mar FY20, CNG prices traded, on average, at a premium of Rs 14.7 to petrol. This was almost three times the premium of Rs 5.1 in the same period last year.

⁴² Domestic petrol production declined 13.0 percent YoY in FY20.

⁴³ Industry representatives also attributed the rise in petrol demand in June to higher long-distance travelling via passenger vehicles amid reduced operations of flights, railways and commuter bus operations; and tendency of consumers to keep fuel tanks full given the sizable fluctuations in local prices.

a widening of CNG's price differential with petrol: while CNG was trading at a premium of around Rs 21 to petrol by end-March, the differential had more than doubled to almost Rs 49 by end-June.

Meanwhile, the country's power generation fuel mix underwent some major changes in the year, which in turn had led to changes in the composition of its import demand.

Specifically, coal import volumes rose, whereas LNG purchases stagnated, as coal replaced LNG as the second-largest fuel source for electricity generation in the country (**Table 6.10**).⁴⁴ This shift came as two major CPEC power projects – a 1,320MW plant at Hub and 660MW plants in Thar – became operational in the first half of the year; whereas another 1,320MW imported coal plant at Sahiwal had started operations a few weeks before the start of the year.⁴⁵ As a result, coal-based power generation surged 56.7 percent in FY20, as per NEPRA data. Moreover, hydropower generation rose 19.6 percent and reached a record high in the year, owing to decent water availability and effective management of the hydropower stations.⁴⁶ These two factors contributed to lower LNG

Fuel-wise Power Generation

Table 6.10

shares in percent

	FY19	FY20
Hydro	26.3	31.8
Coal	13.3	21.0
LNG	23.0	19.6
Gas (piped)	17.9	12.4
Furnace oil	7.4	3.4
Others	12.0	11.9
Growth in total power gen (%)	1.7	-0.8

Source: NEPRA

and FO imports in the year. Additionally, the fall in international prices further lowered import values of LNG as well as of coal.⁴⁷

Non-energy imports

The country's non-energy imports dropped 15.3 percent to US\$ 34.1 billion in FY20 – a five-year low. Most non-energy imports fell throughout the year (**Figure 6.20**), and unlike energy imports, did not exhibit any substantial deepening in Q4 relative to the other three quarters. Sharp drops were noted in imports of sectors that were particularly hit hard by the macroeconomic stabilization and regulatory measures taken before the Covid-19 outbreak, such as automobiles, construction (metal), and general industrial use items (plastics and chemicals). In some cases, inventory build-ups from last year and an increase in domestic production in FY20 lowered the demand for imports.

Exceptions to the broad-based import decline were electrical and power generation machinery, whose imports increased, as work continued on some renewable power projects under CPEC.⁴⁸ Cell phone imports also almost doubled over FY19 and reached a record high, though the increase mostly reflected the diverting of grey-channel imports to formal channels.⁴⁹

The transport group's imports fell to an 11-year low, as a sizable 26.5 percent drop in domestic automobile production in the year (**Chapter 2**) amid weak sales lowered the industry's demand for raw materials, including CKD kits. Also, the continuation of restrictions on CBU car imports via the gift and baggage schemes introduced in FY19, led

⁴⁴ Coal import volumes rose 4.7 percent in FY20, whereas the growth in LNG import volumes stagnated at 1.0 percent in the year, against an increase of 17.7 percent in FY19. In Q4, quantum LNG imports dropped by a sizable 50.7 percent YoY. Meanwhile, the country imported furnace oil in only one month in the year (July 2019).

⁴⁵ Source: <http://cpec.gov.pk/energy>

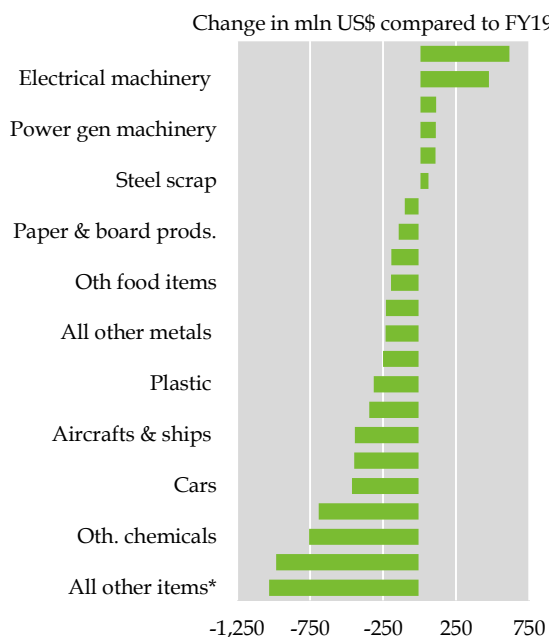
⁴⁶ Source: WAPDA press release dated June 30, 2020.

⁴⁷ Unit prices of Pakistan's LNG imports declined 21.0 percent YoY in FY20, whereas those of coal dropped 18.5 percent.

⁴⁸ Some CPEC hydropower projects that are currently under construction phase are the Suki Kinari (KP) and Karot (River Jhelum) stations (source: <http://cpec.gov.pk/energy>).

⁴⁹ Another supportive factor was the abolishment of a three percent value-added tax on commercial cell phone imports via the FY19 budget, which slightly reduced the cost of imported handsets.

YoY Change in Major Non-Energy Imports in FY20 **Figure 6.20**



*excluding coal

Source: Pakistan Bureau of Statistics

to a persisting decline in their imports in FY20.⁵⁰ Also, last year's transport imports were inflated by a one-time purchase of an underwater drilling platform worth around US\$ 429 million, which led to a higher base effect for the imports.

The slump in the automobile segment spilled over into lower demand for steel products, such as steel strips. Local steel production, despite declining 17.4 percent in the year, did

not necessitate higher imports. Lastly, the imposition of anti-dumping duties on some Russian and Canadian steel products in September 2019 also curbed imports of finished products. Mainly due to lower steel product imports, the overall metal group imports declined to a five-year low in FY20. Meanwhile, food imports dropped 4.3 percent to a four-year low. The primary reason seems to be a build-up in the inventory of raw materials and finished products by the edible oil industry last year amid multi-year low international prices. In FY20, import volumes of palm and soybean oil, along with oilseeds in general, showed a declining trend, as their international prices rebounded,⁵¹ and as domestic edible oil production increased.⁵² A quantum-led drop in soybean seeds (classified under 'other food items') was the single-largest factor behind the lower food imports. In contrast to edible oil and seeds, pulses import volumes rose 24 percent, with most of the increase coming in H2-FY20. Pakistani importers likely rushed to stockpile the staples to ensure smooth domestic supplies amid the Covid-19 outbreak; however, other major importers (such as India, Indonesia etc) were also in the global market at the same time, leading to a surge in international prices, and, subsequently, in unit prices of Pakistan's imports.⁵³ As a result, pulses import values rose 21.5 percent in FY20 to a three-year high of US\$ 614.6 million.

⁵⁰ For details about these restrictions, see SBP's Annual Report on the State of Pakistan's Economy for FY19.

⁵¹ In FY19, average international palm oil prices had fallen 18.6 percent YoY, whereas soybean oil prices had dropped 11.6 percent. In FY20, these prices had, on average, risen by 11.5 percent and 2.6 percent, respectively.

⁵² Domestic cooking oil production had risen 9.0 percent in FY20. Local production of some oilseeds, such as rapeseed and canola seeds, also increased over the last year (source: Economic Survey of Pakistan 2019-20).

⁵³ The unit prices of Pakistan's pulses imports rose 3.3 percent YoY in Q3 and a mammoth 234.9 percent in Q4.