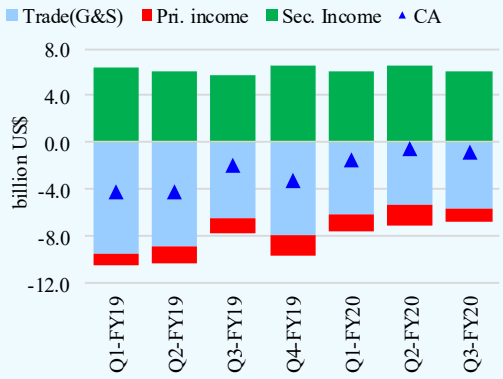
5 External Sector

Improvement in Pakistan's external account continued in Jul-Mar FY20, mainly on the back of contraction in imports. While demand for non-energy imports was already subdued, energy imports declined substantially due to COVID-19 related weakness in global oil prices and lower domestic demand in Q3. Export values were also suppressed due to weak terms of trade, despite the country exporting a significantly higher quantum in the period. Nonetheless, the lower trade deficit, together with a decent growth in workers' remittances (specifically from the US and the GCC), and a significant reduction in the services deficit, lowered the Jul-Mar FY20 current account deficit to a quarter of last year's level. Thus, this reduction in current account deficit, along with realization of significant multilateral financial inflows and some improvement in investments helped strengthen SBP's FX reserves to a 24-month high of US$ 12.8 billion by end-February 2020. However, in March 2020, COVID-19 related uncertainty crept into global financial markets and, as in other emerging markets, foreign investors started offloading their holding of local debt securities. As a result, Pak Rupee depreciated by 7.5 percent in this month and large repayments of official external debt led to a fall in SBP's FX reserves by US$ 1.9 billion. Both of these falls were lower than in many other emerging markets, reflecting Pakistan's improved fundamentals and prudent policy response to COVID-19.

5.1 Current Account

During Jul-Mar FY20, the current account deficit was recorded at US$ 2.8 billion, falling by US$ 7.5 billion from the same period last year (**Table 5.1**). This outcome was largely due to a drop in import payments, as exports receipts stagnated at last year's level, and a decent increase was noted in remittances. However, increased outflow from the primary income exerted some pressure on the current account, amid both higher profit repatriation and interest payments (**Figure 5.1**).

Figure 5.1: Breakdown of Current Account Balance



Data source: State Bank of Pakistan

Table 5.1: Pakistan's Balance of Payments
billion US dollars

	Q3			Jul-Mar		
	FY19	**FY20[P]**	**Abs change**	**FY19**	**FY20[P]**	**Abs change**
Current account balance	-2.0	-0.7	1.2	-10.3	-2.8	7.5
Trade balance	-5.6	-4.9	0.7	-21.3	-14.7	6.6
Exports	6.2	5.9	-0.3	18.1	18.3	0.2
Imports	11.8	10.8	-1.0	39.3	32.9	-6.4
Energy	*2.8*	*2.4*	*-0.4*	*10.8*	*7.7*	*-3.1*
Non-Energy	*9.1*	*8.4*	*-0.6*	*28.5*	*25.2*	*-3.3*
Services balance	-0.9	-0.8	0.1	-3.5	-2.4	1.0
Primary income balance	-1.2	-1.1	0.1	-3.7	-4.3	-0.5
Interest payments	*0.6*	*0.8*	*0.2*	*1.7*	*2.3*	*0.6*
Profit Repatriation	*0.3*	*0.2*	*-0.1*	*1.0*	*1.0*	*0.0*
Secondary income balance	5.7	6.1	0.4	18.2	18.6	0.4
Workers' remittances	*5.0*	*5.6*	*0.6*	*16.0*	*17.0*	*1.0*
Capital account balance	**0.0**	**0.0**	**0.0**	**0.2**	**0.2**	**0.1**
Financial account balance	**-5.4**	**-0.3**	**5.0**	**-11.4**	**-5.9**	**5.4**
Direct investment in Pakistan	0.4	0.8	0.4	0.9	2.1	1.2
Portfolio investment in Pakistan	0.0	-0.2	-0.3	-0.4	0.2	0.6
Other investment	-5.0	0.2	5.2	-10.7	-3.5	7.2
Net incurrence of liabilities	5.3	-0.2	-5.6	10.6	3.6	-7.0
General government	2.2	-0.5	-2.7	4.0	3.7	-0.3
Private sector (excl. banks)	0.0	0.1	0.1	1.1	0.5	-0.5
Banks	0.1	0.1	0.1	0.6	-0.2	-0.7
SBP's liquid reserves (end-period)				**10.5**	**10.8**	**0.4**
Total liquid reserves (end-period)				**17.4**	**17.1**	**-0.3**
PKR app(+) /dep(-) against US$ (in %)	-1.4	-7.1	-	-13.7	-4.0	-

[P] Provisional
Data source: State Bank of Pakistan

Workers' remittances

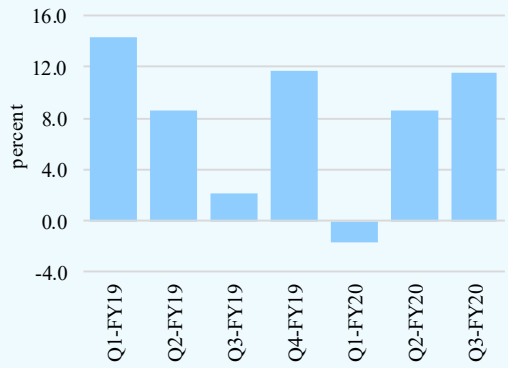
Workers' remittances rose by 6.0 percent YoY to US$ 17.0 billion in Jul-March FY20. This growth was marginally lower than the 8.3 percent growth recorded in the same period of last year.

The rise in workers' remittances this year was broad-based. Particularly, inflows from the USA and the GCC countries exceeded US$ 400 million from last year. Among the GCC countries, inflows from the UAE and Saudi Arabia continued to rise due to a surge in emigration of low-skilled labor in the recent past to mostly

work on infrastructure projects.[1] In case of the USA, the remmitances growth reflects tight labor market and rising wages in the country.[2]

Specifically, in the third quarter, the remittances grew by an impressive 11.6 percent (**Figure 5.2**).[3] This growth was in sharp contrast to only 2.0 percent increase seen in the same period of last year **(Table 5.2)**. Particularly, remittances went up by 9.3 percent in the month of March 2020, as the prevailing uncertainty regarding the COVID-19 pandemic may have brought forward some of the inflows. It is worth highlighting that the impact of COVID-19 is yet to be reflected in remittance inflows, as a number of host countries are facing lockdowns and the layoff of immigrant workers may get worse with spike in confirmed cases by end-March 2020.

Figure 5.2: YoY Growth in Workers' Remittances



Data source: State Bank of Pakistan

Table 5.2: Workers' Remittances to Pakistan
(million US dollars)

	Q3		Jul-Mar		
	FY19	**FY20**	**FY19**	**FY20**	**Change**
Total	**5,043.0**	**5,627.0**	**16,030.9**	**16,991.6**	**960.7**
GCC	2,730.2	3,047.8	8,701.9	9,104.4	402.5
S. Arabia	1,179.8	1,307.7	3,747.3	3,925.7	178.4
UAE	1,063.8	1,202.9	3,412.2	3,552.2	140.0
Other GCC	486.6	537.3	1,542.4	1,626.5	84.1
USA	756.0	1,021.5	2,446.4	2,880.4	434.0
UK	829.2	801.1	2,476.2	2,554.1	77.9
EU	124.9	135.4	437.7	474.7	37.0
Others	602.87	621.1	1,968.7	1,978.0	9.3

Data source: State Bank of Pakistan

However, with the unfolding of the COVID-19 pandemic since then, the slowdown in global economic activity amid slumping market sentiments has contributed to a sizable drop in global oil prices, leading to a double dent to the economies of oil exporting countries, especially the

[1]According to the Bureau of Emigration and Overseas Employment, nearly 70 percent of the workers registered for employment fell under the category of labourer and drivers during 2019. Moreover, around 87 percent of the overall number of workers who emigrated abroad for work, went to the UAE and KSA during 2019.
[2] Unemployment rate in the US lowered to 3.8 percent in Q3, leading to higher wage earnings.
[3] Growth in Q3 propelled cumulative growth to 6 percent in Jul-Mar from 3.4 percent in Jul-Dec.

GCC. As a result, layoffs in the Gulf economies may have implications for Pakistan's future remittance inflows, as the GCC is one of the largest remittance corridors for Pakistan.

5.2 Financial Account

While the improvement in the current account reduced the country's external financing need, the situation in the financial account in Q3-FY20 became unsteady. Foreign exchange inflows via FDI rebounded as the work on CPEC-related projects gained traction. On the other hand, foreign portfolio investors, while investing in the local currency government securities till mid-Q3, started liquidating these holdings by the end of the quarter in the wake of uncertainty created by the COVID-19 pandemic for the global economy. This reversal in portfolio investment created some outflow pressure on the financial account. In overall terms, in Jul-Mar FY20, the financial account received US$ 5.9 billion inflows; almost half of the US$ 11.4 billion recorded in the same period of last year; however, these inflows in financial account were more than sufficient to finance the current account deficit.

Foreign direct investment

The growth in foreign direct investment in H1-FY20, carried its momentum into Q3-FY20 as well, as the country received US$ 791 million in the quarter compared to US$ 404 million in the same period last year. As a result, net FDI inflows in Jul-Mar FY20 increased to US$ 2.1 billion, up from 0.9 billion in this period of FY19 (**Table 5.3**).

Table 5.3: Sector-wise Net Foreign Direct Investment
million US dollars

	Q3		Jul-Mar	
	FY19	**FY20**	**FY19**	**FY20**
Power	31.7	495	-353.1	757.4
Financial business	45.4	48.4	247.6	210.5
Exploration & prod.	110.5	76.7	267.8	218.3
Electrical machinery	1.9	25.5	126.6	143.4
Transport equipment (Automobiles)	29.9	7.3	84.3	51.8
Telecommunications	-20.1	45.1	-157.4	464.8
Others	224.5	92.7	689.3	302.2
Total	**404.0**	**791.0**	**905.1**	**2,148.0**
of which				
China	100.0	476.0	22.4	872
Non-China	304.0	315.0	882.7	1,276

Data source: State Bank of Pakistan

FDI inflows from China witnessed a rebound, specifically in Q3, as the country continued to invest in CPEC projects even though its own economy was reeling under the COVID-19 pandemic. Sector-wise disaggregation suggests that the dynamics of FDI inflows has changed as the year progressed. The power sector was the key driver behind Q3-FY20 inflows, as the sector alone attracted

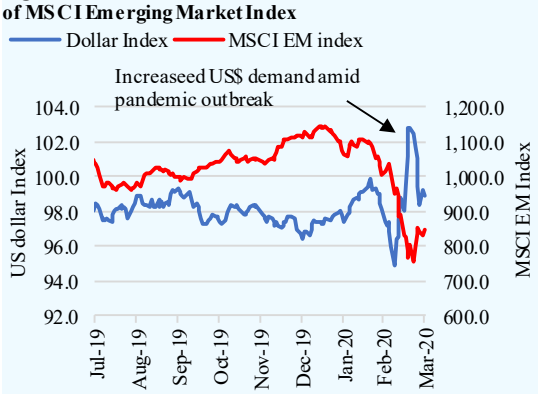
more than half of the total FDI in Q3. A significant part of these inflows was received by firms working on CPEC-related power projects. Moreover, a Chinese company operating in Pakistan received an intercompany loan of US$ 190 million in Q3 for working capital needs from its parent company. In contrast, until H1-FY20, the telecommunication sector was the leading recipient of FDI, with inflows of US$ 478 million. A one-off inflow from multinational cellular companies for renewal of their operating licenses in Pakistan was the main driver of these telecommunication-related inflows.

Meanwhile, investment activities in the oil and gas exploration sector remained subdued in Q3-FY20 as falling oil prices led major oil companies to halt their capital investment plans. Exploration and drilling have become infeasible due to lower demand amid sagging oil price environment.[4]

Foreign portfolio investment

With the unfolding of the global COVID-19 pandemic, EMs witnessed an outflow of portfolio investment, as investors fled towards safe-haven assets, such as the US Dollar (**Figure 5.3**). As a result, since January 21 2020, the emerging markets have witnessed portfolio outflows to the tune of almost US$ 97 billion – US$ 72 billion in equity and US$ 25 billion in debt – within 75 days, surpassing the outflows during the global financial crisis of 2008.[5] During the GFC, portfolio investors had pulled out almost US$ 25 billion from EMs in 90 days, starting from September 8, 2008.

Figure 5.3: Historical Value of Dollar Index and Performance of MSCI Emerging Market Index



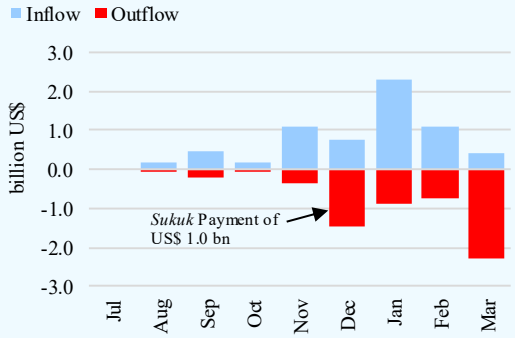
Data source: Bloomberg and MSCI

[4] Source: Bloomberg (https://www.bloomberg.com/news/articles/2020-03-20/oil-crash-wipes-out-31-billion-from-industry-s-investment-plans).

[5] January 21 is used as the starting point, as lockdowns began in China around that time (source: Institute of International Finance).

In the backdrop of this global investment scenario, the foreign portfolio investment in Pakistan in Q3-FY20 also came under strain. The foreign investment that started pouring in from Q1 in the domestic debt market (T-bills and PIBs) continued to gather pace till January 2020 **(Figure 5.4)**. In January, inflows into these securities surged to US$ 2.3 billion. However, with the unfolding of COVID-19 into a pandemic by March 2020, these portfolio inflows witnessed a trend reversal, with outflows to the tune of US$ 2.2 billion, in line with the global trend. On aggregate, Q3-FY20 witnessed a net outflow of US$ 153 million.

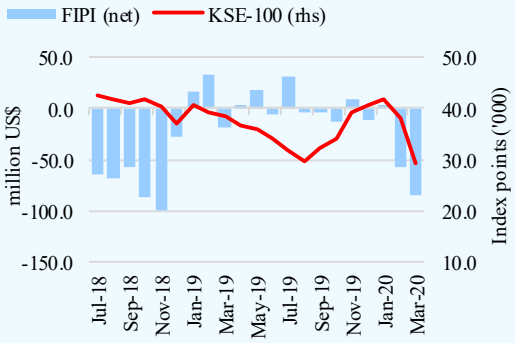
Figure 5.4: Portfolio Investment in T-bills and PIBs during Jul-Mar FY20



Data source: State Bank of Pakistan

Similarly, Pakistan's equity market came under severe pressure, as both local and foreign investors resorted to panic selling. Foreign portfolio investors pulled out US$ 138.2 million in Q3-FY20 from the equity market. Comparatively, in Q3-FY19, there was a net inflow of US$ 30.7 million. During Q3-FY20, the KSE-100 index declined by 28.2 percent and plummeted to 29,000 points on the last day of March 2020 (**Figure 5.5**).

Figure 5.5: Foreign Investment in Pakistan's Equities and PSX Performance



Data source: NCCPL and Pakistan Stock Exchange

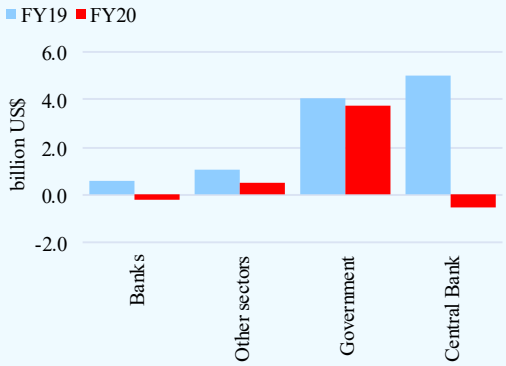
Despite this Q3 outflow, the overall portfolio investment in Jul-Mar FY20 witnessed a net inflow of US$ 227.5 million, against an outflow of US$ 410 million in the corresponding period of last year.

Net incurrence of liabilities

A sharp decline in the CAD, along with some rebound in financial investment, alleviated the government's external financing needs. As a result, the net inflow of foreign exchange liabilities into the country declined by a significant 66.0 percent to US$ 3.6 billion in Jul-Mar FY20, compared to US$ 10.6 billion recorded in the same period last year (**Figure 5.6**).[6]

The declining trend was prominent in both official and non-official inflows (**Figure 5.6**). The net government loans during Jul-Mar FY20 declined by 6.0 percent to US$ 3.8 billion.[7] Specifically, in the third quarter, the government did not resort to commercial borrowings and received US$ 876 million in financing.[8] On the contrary, it had retired foreign obligations worth US$ 1.4 billion in this quarter.

Figure 5.6: Net Incurrence of FX Liabilities (Jul-Mar)



Data source: State Bank of Pakistan

5.3 Exchange Rate and Reserves

Pakistan's total liquid foreign exchange reserves increased by US$ 2.6 billion during Jul-Mar to US$ 17.1 billion by March 2020. The breakup of this increase shows that the SBP's reserves increased by US$ 3.6 billion, whereas commercial banks' reserves depleted by US$ 944 million.

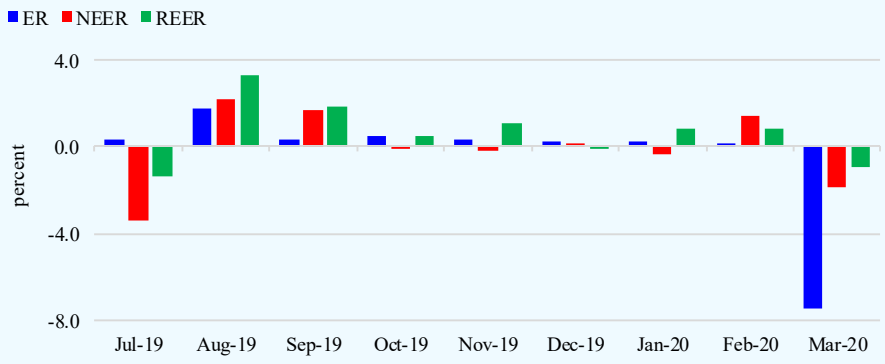
The improvement in the CAD and the realization of significant multilateral financial inflows and some improvement in investments helped build up the country's foreign exchange reserves till February 2020. However, this trend reversed in March 2020, when the SBP's liquid reserves dropped by around US$ 1.9 billion. This was partly due to higher debt servicing to multilateral and commercial lenders and interbank support amid pressure from capital outflows

[6] Last year, the country had received commercial and bilateral inflows from China (US$ 6.3 billion), Saudi Arabia (US$ 3.0 billion) and the UAE (US$ 2.0 billion) for BoP support.
[7] In H1-FY20, gross disbursements and amortization were US$ 7.1 billion and US$ 2.8 billion, respectively.
[8] During H1-FY20, the government had borrowed US$ 1.8 billion from commercial banks.

during the COVID-19 pandemic.[9]

The situation was quite similar for the exchange rate. The Pak Rupee kept appreciating against the US dollar, albeit marginally, from July 2019 till February 2020. However, foreign exchange outflows in March 2020, largely due to a reversal in FPI, led the Pak Rupee to depreciate by 7.5 percent in the month vis-à-vis the US Dollar (**Figure 5.7**).

Figure 5.7: Exchange Rate Appreciation(+)/ Depreciation (-)



Data source: State Bank of Pakistan

In the meantime, the NEER depreciated only by 2.0 percent in March 2020, as the currencies of other major trading partners also depreciated against the US dollar. However, the higher RPI, due to higher domestic inflation, reduced the REER depreciation to only one percent during the month. In overall terms, the NEER in March 2020 was almost at the June 2019 level, while the REER appreciated by 5.8 percent in Jul-Mar FY20.

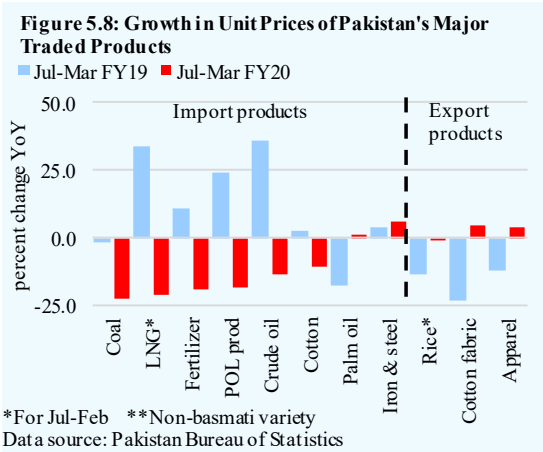
5.4 Trade Account[10]

The trade deficit dropped by 26.4 percent to a four-year low of US$ 17.4 billion in Jul-Mar FY20. The reduction in imports played a major role in lowering this deficit, as exports recorded a marginal growth. Lower international prices of most commodities during this period exerted downward pressure on the unit values of many export and import items. However, the impact was more pronounced on

[9] The debt servicing to multilateral and commercial lenders went up by 31 percent YoY to reach US$ 3.3 billion in Jul-Mar FY20.

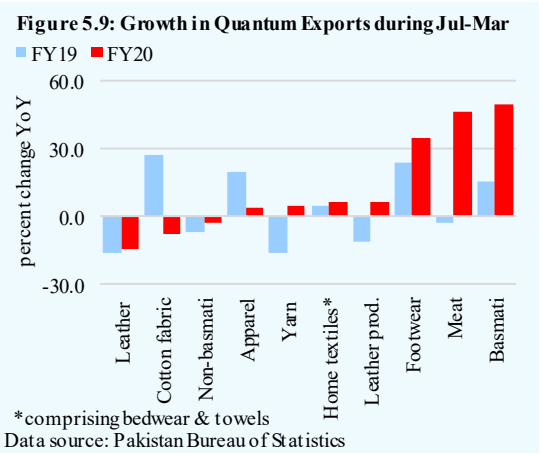
[10] This section is based on customs data reported by the PBS. The information in this section does not tally with the payments record data, which is reported in **Section 5.1**. To understand the difference between these two data series, see Annexure on data explanatory notes.

imported products (**Figure 5.8**).



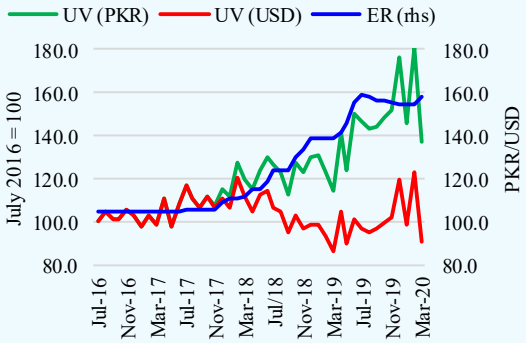
Meanwhile, economic activity seemed to pick up in some sectors as the year progressed, leading to an apparent bottoming out of the declining trend in imports. Sectors with greater external linkages, such as power (FDI-dependent) and textiles (export-oriented), stood out in this regard. With a rebound in FDI into CPEC-related power projects, a notable rise in electrical machinery imports was recorded. Also, the fall in domestic cotton production (**Chapter 2**) necessitated hefty imports, given the strong demand from the textile industry, whose export prospects appeared bright till late-March 2020 (before the outbreak of COVID-19 outside China led to the Great Lockdown).

These upward pressures on some imports were countered by a slump in import demand of domestic-oriented industries, such as transport and construction-allied firms, which were among the hardest hit by the macroeconomic stabilization measures, and led to hefty declines in steel and car imports.



Meanwhile, on the export front, the country exported higher quantities of multiple traditional and non-traditional items (**Figure 5.9**). This was enabled by a two-pronged policy effort. First, the exchange rate realignment with market fundamentals and the provision of electricity to exporting industries at concessionary rates allowed Pakistani exporters to compete by, generally, selling their products at lower unit prices **(Figure 5.10)**.[11] While this compromised Pakistan's export earnings to an extent, the country was still among the few EMs whose exports rose during Jul-Mar FY20 **(Figure 5.11)**. And second, the timely release of sales tax refunds and availability of concessionary Export Finance Scheme (EFS) in a high interest rate environment helped ease exporters' liquidity constraints.[12]

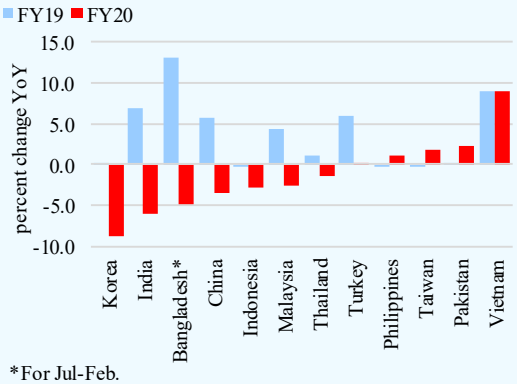
Figure 5.10: Unit Value Index of Pakistan's Apparel Exports and Exchange Rate



Data sources: Pakistan Bureau of Statistics and State Bank of Pakistan

With regards to the impact of COVID-19 on the trade account during Q3, it may be recalled that among Pakistan's trading partners, manufacturing activity had halted only in China (February onwards); lockdowns had yet to firmly take hold in most of Europe and the US till mid-March. In Pakistan also, trade activities continued smoothly till March 23, when lockdowns began.

Figure 5.11: Export Growth in Major EMs during Jul-Mar



*For Jul-Feb.
Data source: Haver Analytics

In line with the development,

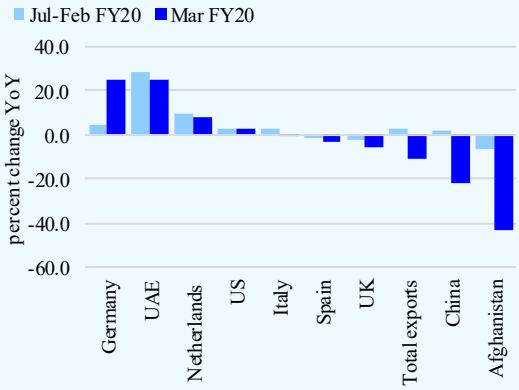
[11] The government had announced and continued a flat 7.5 cents/kWh power tariff for exporting industries in January 2019 via S.R.O. 01(I)/2019 to S.R.O. 12(I)/2019 (source: Ministry of Energy).
[12] Disbursements under EFS rose to Rs 109.2 billion in Jul-Mar FY20, from Rs 70.7 billion last year (**Chapter 3**). Sales tax refunds worth Rs 56 billion were sanctioned via FASTER in Jul-Mar FY20 (source: https://www.fbr.gov.pk/pr/rs-56-billion-refund-claims-sanctioned-by-fbr/152303).

SBP data shows that receipts from China and Afghanistan slumped dramatically in March 2020 on YoY basis, relative to their performance during Jul-Feb (**Figure 5.12**). In case of Afghanistan, the government had announced sealing of borders from March 16 to prevent the spread of COVID-19, adversely affecting trade with the country.[13] Meanwhile, for imports, payment data suggests that purchases from China had declined the most in March, with the drop concentrated in machinery items (cranes, air compressors) steel, and chemicals.[14]

Exports

Exports grew 2.2 percent YoY to US$ 17.4 billion in Jul-Mar FY20; the growth was much higher than last year. While the unit prices continued to exert downward pressure on export values, volumetric exports of a wide range of products rose substantially enough to offset this drag, and led to higher export earnings (**Table 5.4**).

Figure 5.12: Growth in Exports to Top Destinations



Data source: State Bank of Pakistan

The country's textile exports rose 4.2 percent YoY to US$ 10.4 billion in Jul-Mar FY20, after recording negligible growth last year. Quantum-led increases in apparel and bed wear exports were mainly responsible for the improved performance this year, and offset slight declines in exports of low value-added products.[15]

Apparel exports (comprising knitwear and readymade garments) grew 8.8 percent to US$ 4.5 billion in the period, with quantums and unit prices both rising and contributing to higher export values. Pakistani exporters – along with those from Cambodia, Bangladesh, Turkey and Vietnam –benefitted from China's gradual retreat from the EU and the US (after imposition of additional tariffs on its apparel products in September 2019), as indicated in **Tables 5.5** and **5.6**.

[13] Source: Press Information Department, March 13, 2020 (pid.gov.pk/site/press_detail/13321).
[14] Of the US$ 793.0 million drop in total import payments in March 2020, US$ 228.7 million decline was recorded from China.
[15] Quantum apparel exports had risen 4.4 percent YoY in Jul-Mar FY20, whereas bed wear shipments had increased 8.1 percent during the period.

Furthermore, in light of the COVID-19 outbreak in China, anecdotal evidence suggests that some orders that had been cancelled from China by European and American buyers in February and March, were diverted towards Pakistan, leading to decent growth in Pakistan's exports to these economies in Q3.[16] While clothing imports of the EU and US dropped significantly in Q3 as buyers desperately looked for suppliers outside China, Pakistani exporters managed to outperform major competitors in both markets during this period (**Tables 5.5 and 5.6)**.[17]

Table 5.4: Pakistan's Major Exports during Jul-Mar FY20
million US dollars

	FY19	FY20	Abs. change	Quant. Effect	Price Effect
Food group	**3,348.1**	**3,394.7**	**46.5**	**-**	**-**
Rice	1,487.9	1,594.0	106.1	79.5	26.6
Basmati	428.8	569.2	140.4	214.5	-74.1
Non-basmati	1,059.1	1,024.8	-34.3	-23.7	-10.6
Wheat	122.0	11.4	-110.6	-111.5	0.9
Sugar	115.1	70.7	-44.5	-59.8	15.3
Fruits & veg.	537	637.3	100.3	3.0	97.3
Meat & prep	156.4	233.0	76.5	72.3	4.2
Textile group	**9,989.8**	**10,413.0**	**423.2**	**-**	**-**
Raw cotton	15.7	17.0	1.3	5.0	-3.7
Cotton yarn	835.7	819.8	-15.9	43.4	-59.3
Fabric	1,595.9	1,547.4	-47.8	-115.3	66.8
Apparel	4,110.6	4,470.6	360.2	180.0	180.0
Bedwear	1,719.4	1,761.5	42.1	138.5	-96.4
Towels	588.1	591.6	3.5	12.4	-8.1
POL group	**361.8**	**238.9**	**-122.8**	**-69.5**	**-53.3**
Other manuf.	**2,492.1**	**2,426.5**	**-65.7**	**-**	**-**
Sport goods	222.9	222.6	-0.3	-	-
Leather tanned	187.9	151.4	-36.6	-26.8	-9.7
Leather goods	358.8	401.1	42.3	23.8	18.5
Footwear	90.1	104.4	14.3	31.7	-17.4
Medical items	279.9	303	23.2	-	-
Chemicals	439.2	348.7	-90.5	-	-
Cement	221.3	210.1	-11.2	16.3	-27.5
Total Exports	**17,071.1**	**17,446.9**	**375.7**	**-**	**-**

Data source: Pakistan Bureau of Statistics

In contrast, exports of the low value-added segment remained weak, with their cumulative exports dropping 2.6 percent to US$ 2.4 billion in Jul- Mar FY20; quantum exports of yarn had risen but those of fabric had declined.[18] Disaggregated data shows that China and Bangladesh – generally the largest buyers of Pakistan's low value added-textile products – purchased more cotton yarn from Pakistan, instead of the finished product (fabric).

[16] Manufacturing activity in China's two key apparel-producing areas (Guangdong and Zhejiang) were halted from January 24 until mid-February, as a result of the New Lunar Year holidays, which were ultimately extended amid the COVID-19 lockdown.
[17] The drop in the US' and EU's imports in Q3 mainly resulted from sizable drops in March. The EU's apparel imports were down 4.6 percent YoY in Jan-Feb FY20, and then fell by a sizable 15.2 percent in March 2020. Similarly, the US' apparel imports were down 11.4 percent YoY in Jan-Feb FY20, before declining by 12.9 percent in March 2020.
[18] Quantum yarn exports had risen 5.2 percent YoY in Jul-Mar FY20, whereas fabric shipments dropped 7.2 percent during the period.

Non-textile exports

The non-textile exports dropped by a marginal 0.7 percent to US$ 7.0 billion in Jul-Mar FY20. It is worth noting that these exports had performed decently during the first two quarters of FY20, with traditional and non-traditional items contributing to the increase.19 In Q3, however, these exports dropped 5.1 percent, mainly due to a heavy, quantum-led drop in non-basmati exports, which offset slight increases in exports of other products, and also dragged down the export growth recorded in the first two quarters.

Table 5.5: Growth in EU's Quantum Apparel Imports

	Jul-Mar		Jan-Mar	
	FY19	FY20	FY19	FY20
Pakistan	5.6	8.9	9.0	7.7
Turkey	6.0	1.9	5.6	-3.8
India	-3.7	-3.8	-3.1	-6.9
Bangladesh	9.6	-2.8	7.2	-2.3
China	1.8	-7.9	-10.2	-14.6
Cambodia	6.1	-12.6	-0.3	-17.8
World	5.2	-3.1	0.0	-6.8

Data source: Eurostat

Table 5.6: Growth in the US' Quantum Apparel Imports

	Jul-Mar		**Jan-Mar**	
	FY19	**FY20**	**FY19**	**FY20**
Pakistan	4.8	10.3	7.6	13.8
Bangladesh	7.7	1.8	15.9	6.7
China	4.4	-16.5	0.8	-32.4
Vietnam	7.2	3.2	12.8	2.6
India	5.8	-1.5	10.4	-0.8
Indonesia	0.5	-9.6	5.4	-10.4
Cambodia	2.4	9.7	-3.8	14.4
World	4.7	-6.7	4.5	-11.8

Data source: US Office of Textiles and Apparel

Rice exports

Overall rice exports rose 7.1 percent YoY in Jul-Mar FY20; however, the entire growth was recorded in the first half, as exports dropped 16.3 percent in the third quarter. Throughout the year, the trend in quantum exports played a dominant role in determining export values, as international prices of Pakistani (as well as Indian and Vietnamese) rice varieties generally remained soft.[20]

In terms of varieties, while both basmati and non-basmati exports grew strongly in H1-FY20, the latter recorded a sharp drop in the third quarter, pulling down overall rice exports. Data for Jan-Feb FY20 indicates that the drop in non-basmati exports is mostly traced to Philippines and China. The drop in exports to Philippines came about as it imposed restrictions on rice imports in December

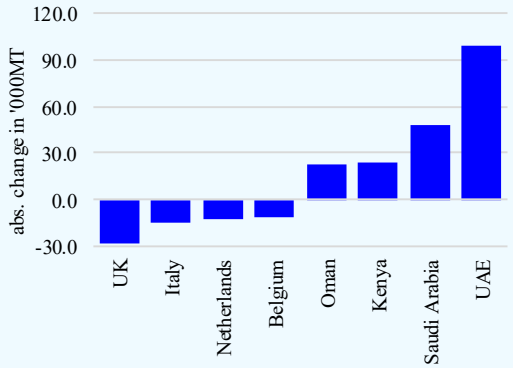
[19] Non-textile exports had risen 1.9 percent and 1.8 percent in Q1 and Q2-FY20 respectively, before dropping 5.1 percent in Q3.

[20] Export prices of Pakistan's non-basmati rice were, on average, 1.8 percent lower in Jul-Mar FY20 on YoY basis. Export prices of comparable Indian and Vietnamese varieties were also down 0.9 percent and 8.8 percent respectively during the period (source: FAO Rice Price Monitor).

2019, amid a significant buildup in domestic stocks.[21] Meanwhile, the drop in shipments to China might reflect the impact of lockdowns in the neighboring country from February onwards.[22]

In contrast, basmati rice performed remarkably well, with exports rising 33.7 percent in the nine-month period. Higher quantums played a dominant role; in fact, quantum exports in Jul-Mar FY20 reached an eight-year high. However, a shift is underway in the market destinations for Pakistani basmati: while European countries used to dominate, Middle Eastern markets like the UAE and Saudi Arabia have accounted for the bulk of increase in Pakistan's basmati exports this year (**Figure 5.13**). Exporters claim that a sizable chunk of exports to these countries are transshipped by traders to other countries in the region, especially Iran, Yemen, and Iraq, where regular banking transactions attract higher scrutiny.

Figure 5.13: Change in Pakistan's Quantum Basmati Exports in Jul-Feb FY20



Data source: Pakistan Bureau of Statistics

With regards to the EU countries, there is reason to believe that they are importing higher quantities of brown rice from Pakistan instead of white basmati rice, owing to differences in import duties on the two varieties.[23]Brown rice, while similar in quality to basmati, is classified by the PBS as non-basmati.

Other exports

Among other food products, fruit and vegetable exports grew 18.7 percent in Jul-Mar FY20 to a record high of US$ 637.4 million. Due to higher production, aggressive marketing and improved packaging, mango and orange exports recorded decent increases, with exporters making inroads into new Central Asian

[21] Finishing rice stocks in Philippines by end 2019-20 are projected to be 62.6 percent higher than those at end of 2017-18 (source: USDA Grain: World Markets and Trade Report, April 2020).
[22] Pakistan's quantum non-basmati rice exports to China dropped by a sizable 70.9 percent YoY in Jan-Feb FY20.
[23] This partly explains the increase in EU's share in Pakistan's brown rice exports to 67.6 percent in Jul-Feb FY20 from 48.5 percent, while white basmati's share fell from 28.3 percent to 9.4 percent.

markets, while retaining their presence in the Middle East and Europe.[24]

Cement exports dropped 5.0 percent to US$ 210 million in Jul-Mar FY20. Disaggregated data shows that volumetric exports of finished (Portland) cement and clinker (intermediary product) both increased in the Jul-Jan period, whereas unit prices for both had dropped. Faced with slowing local dispatches and trade disruptions with India (a major destination in the past), the cement manufacturers have revived traditional markets, such as Afghanistan and Sri Lanka, and diversified towards some African countries, such as Madagascar and Mozambique. These markets accounted for the bulk of increase recorded in quantum Portland cement exports. Meanwhile, Bangladesh accounted for almost the entire rise in Pakistan's clinker exports, with indications that Pakistani firms are eating into Vietnam's share in the Bangladesh market owing to Vietnam's focusing more on the Chinese market.[25]

Lastly, footwear exports grew 15.9 percent to US$ 104.4 million in Jul-Mar FY20, led by a healthy 41 percent volumetric increase. Exporters managed to ship higher quantities to the US and Middle Eastern and European countries (Saudi Arabia, Kuwait, Oman, Germany, and the UK). While leather footwear still dominates the export profile, it is worth noting that since FY18, non-leather (synthetic) footwear have been rising at a faster rate. This trend is indicative of change in buyers' preference in some countries towards more stylish and cheaper textile-based sneakers, and faux (synthetic) leather-based footwear. [26]

Imports

The country's imports dropped 14.5 percent to a four-year low of US$ 34.8 billion in Jul-Mar FY20. The continuation of stabilization policies up till mid-March 2020 – along with the ongoing transformation in the energy mix and its effects on the downstream activities – had led to tepid import demand for both non-energy and energy products (**Table 5.7**). Global oil prices were also quite favorable and played an important role in reducing the energy import values.[27]

[24] For instance, quantum mango exports to Central Asian Republics like Kazakhstan, Uzbekistan and Tajikistan, rose 132.5 percent in Jul-Feb FY20.
[25]New market demand emerged for Vietnamese clinker in China as the latter turned to shut down some of its own cement factories in view of rising environmental pollution.
[26] For instance, the share of non-leather footwear in the UAE's overall footwear imports (in quantum terms) rose from around 32 percent in 2015 to 46 percent in 2019, while that of leather footwear declined from 69 percent to 54 percent (data source: International Trade Centre).
[27] Arab Light crude oil prices were, on average, down 12.6 percent YoY during Jul-Mar FY20.

However, by Q2, some upward pressure on non-energy imports was evident, indicating the possibility that the drop in imports was bottoming out (**Figure 5.14**). The import of power generation and electrical machinery had risen strongly, corresponding with a rebound in foreign investment in the power sector (on both the generation and transmission fronts), and these trends continued into Jan-Feb FY20 as well.

Additional pressure came from cotton in Q3, whose import demand had risen sharply following a fall in domestic production and decent export prospects for the textile industry. The government also facilitated cotton imports by withdrawing import duties in January 2020.[28] Lastly, global palm oil prices had surged in recent months in response to lower production in the top two producers (Indonesia and Malaysia), which pushed up the commodity's import values despite a decline in their volumetric imports.

Table 5.7: Pakistan's Major Imports during Jul-Mar
(million US dollars)

Items	FY19	FY20	Abs. change	Quant. impact	Price impact
Energy group	**10,614.0**	**8,900.6**	**-1,713.4**	-	-
POL prods.	4,623.0	3,964.7	-658.3	256.9	-915.3
Crude oil	3,379.0	2,452.6	-926.4	-542.9	-383.5
LNG*	2,404.6	2,237.3	-167.4	429.0	-558.4
Agri and chem	**6,577.8**	**5,576.9**	**-1,001.0**	-	-
Fertilizer	716.0	482.3	-233.8	-117.4	-116.3
Other chem.	3,271.3	2,739.0	-532.3	-	-
Transport group	**2,083.2**	**1,197.6**	**-885.6**	-	-
Cars	820.4	408.2	-412.2	-	-
CBUs	320.5	64.8	-144.3	-	-
CKDs	611.4	343.4	-268.0	-	-
Truck & buses	370.0	216.5	-153.5	-	-
Aircraft & ships	222.0	240.7	18.8	-	-
Metals group	**3,756.3**	**3,074.7**	**-681.6**	-	-
Steel scrap	1,108.9	1,188.2	79.3	-180.8	260.0
Iron & steel	1,657.1	1,159.3	-497.8	-427.3	-70.5
Food group	**4,261.3**	**3,963.3**	**-298.1**	-	-
Tea	445.8	376.2	-69.6	-38.8	-30.8
Palm oil	1,386.1	1,380.2	-5.8	-24.8	19.0
Pulses	393.4	428.8	35.4	65.2	-29.8
Oth. food items	1,633.4	1,461.8	-171.6	-	-
Textile group	**2,237.1**	**1,915.8**	**-321.3**	-	-
Raw cotton	412.4	556.2	143.8	208.6	-64.8
Syn. yarn	485.3	429.9	-55.4	-20.5	-34.9
Oth. textile items	782.8	453.6	-329.2	-	-
Machinery group	**6,716.0**	**6,632.2**	**-83.8**	-	-
Power gen	955.7	920.0	-35.6	-	-
Electrical	1,321.2	1,748.8	427.6	-	-
Cell phones	557.2	980.0	422.8	-	-
Other machinery	2,408.0	1,746.5	-661.5	-	-
All other items	**4,433.8**	**3,538.0**	**-895.8**	-	-
o/w Coal*	1,052.1	914.2	-137.9	125.8	-263.7
Total imports	**40,679.5**	**34,799.1**	**-5,880.4**	-	-

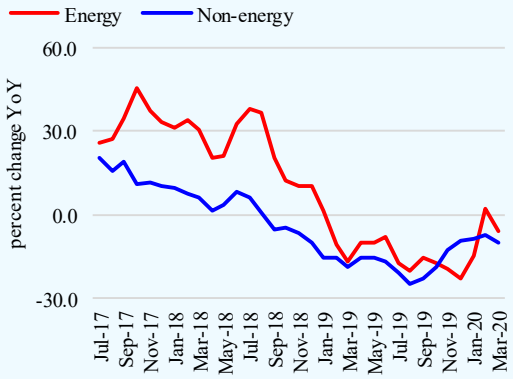
Data source: Pakistan Bureau of Statistics*For Jul-Feb

[28] Via S.R.O. 37(I)/2020, dated January 21, 2020.

Energy imports

Energy imports declined 16.1 percent YoY to US$ 8.9 billion in Jul-Mar FY20; the fall was steeper than the drop recorded in the same period last year. For two major categories – POL products and LNG – lower international prices played a dominant role in curbing the import values, as quantum imports for both had risen in the nine-month period.

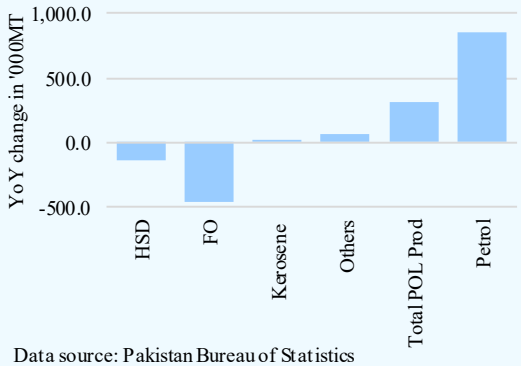
Figure 5.14: Growth in Imports (3m rolling average)



Data source Pakistan Bureau of Statistics

In case of POL products, the higher volumetric imports were driven mostly by petrol, as imports of other major fuel items, such as high speed diesel (HSD), furnace oil and kerosene, all declined during the period (**Figure 5.15**).[29] Petrol imports had been rising since Q2, when occasional closure of CNG stations had forced motorists to switch to petrol; with refineries curtailing production, the demand-supply gap had to be filled via imports. This switch to petrol appeared to be temporary, as petrol sales in Q3 (Jan-Feb) dropped on YoY basis (**Table 5.8**), likely in response to resumption of regular operations of CNG stations. Yet, despite the lower demand, OMCs accelerated their gasoline purchases from abroad in Q3 to build inventories in order to benefit from declining international prices.[30]

Figure 5.15: Change in Quantum POL Products' Imports during Jul-Feb FY20



Data source: Pakistan Bureau of Statistics

Among other POL products, quantum furnace oil and HSD imports dropped

[29] This graph will be updated as detailed PBS data for March becomes available. During March 2020, petrol import payments (SBP data) had risen by 80.8 percent YoY.
[30] Average global gasoline prices were down 14.8 percent YoY in Q3-FY20 (source: Bloomberg).

significantly, as demand for both fuels stayed depressed. With the policy shift away from FO-based power generation, the fuel's demand has fallen significantly. For HSD, the slowdown in construction and imports has lowered the plying of heavy vehicles; this, in turn, has reduced the segment's demand for fuel. That said, the decline in imports of these fuels was completely offset by the rise in petrol imports, especially in the third quarter. As a result, overall POL product import values rose 13.7 percent YoY in Q3-FY20 – the first such increase since Q4-FY18.

Table 5.8: Change in POL Product Sales during Jul-Mar FY20 (MT)

Items	Q1	Q2	Q3	Jul-Mar
Petrol	35.5	132.0	-185.5	-18.0
High speed diesel	-286.9	-97.5	-493.6	-877.9
Furnace oil	-216.3	-116.6	-278.5	-611.3
Jet fuel	-42.4	-29.2	-66.8	-138.4
Kerosene	1.1	-3.9	-1.8	-4.6
Others	-11.0	-5.1	-10.2	-26.2
Total product sales	**-519.8**	**-120.4**	**-1,036.3**	**-1,675.5**

Data source: Oil Companies Advisory Council

Meanwhile, refineries' demand for crude oil stayed subdued, as they curtailed their throughput to avoid adding to the FO stockpiles. As a result, quantum crude oil imports fell 16.1 percent during Jul-Mar FY20. International oil prices were also favorable, declining 12.6 percent on average in Jul-Mar. Also, as OMCs accelerated POL product imports in Q3, crude oil imports fell more drastically in the quarter: quantum crude oil imports in Q3 fell to their lowest level in five years.

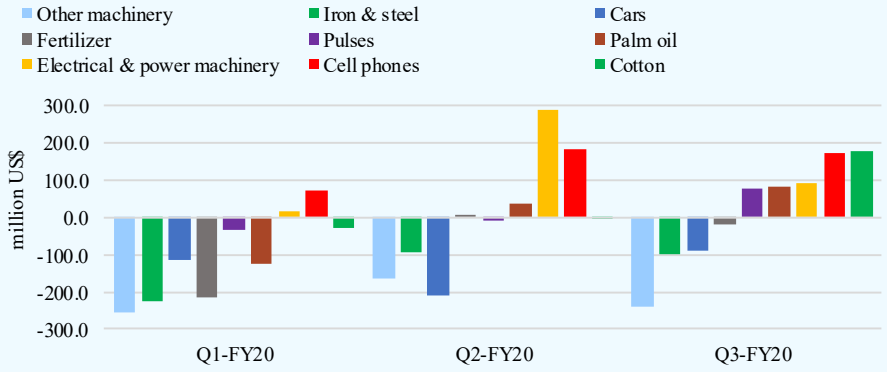
Regarding LNG and coal,[31] the country imported higher quantities than last year, but lower unit prices curtailed their import values.[32]Greater usage of both fuels in power generation (in place of FO) mainly necessitated higher imports.

Non-energy imports

The country's non-energy imports dropped 13.9 percent to US$ 25.9 billion in Jul-Mar FY20. The drop was concentrated in products more susceptible to the demand-compression policy measures, such as construction-allied materials and transport. In contrast, imports of the FDI-dependent power and the export-oriented textile industries rose strongly, in line with improved activity in these sectors (**Figure 5.16**).

[31] Coal imports are classified under "all other items" by both the PBS and the SBP.
[32] Quantum LNG and coal imports had risen 19.6 percent and 12.0 percent respectively during Jul-Feb FY20.

Figure 5.16: Absolute YoY Change in Major Non-Energy Imports



Data source: Pakistan Bureau of Statistics

Machinery imports were the first to rebound as the year progressed, and the country recorded hefty purchases of electrical equipment, such as heavy-duty transformers, capacitors and circuit breakers, from abroad. These imports corresponded with sizable FDI inflows into a firm working on the Lahore-Matiari transmission line project. Upward pressure also came from cell phones, whose imports rose by a significant 75.9 percent in Jul-Mar FY20. The rise mainly stems from the diversion of imports via grey channels to official channels following the introduction of the Device Identification Registration and Blocking System (DIRBS) system by the PTA in H2-FY19.[33]

However, the rise in electrical and cell phone imports was more than offset by a 27.5 percent drop in 'other machinery' imports in the period. Disaggregated Jul-Feb data for this category shows that the decline was concentrated in items mainly related to the construction industry – such as agglomeration machinery to mould cement and sand, cement crushing & grinding machinery, rolling mills for cold steel sheets, and conveyer belts. As a result, overall machinery imports fell 1.2 percent in Jul-Mar FY20.

With subdued construction activity and slumping automobile production (**Chapter 2**), the country's import demand for steel also stayed low. Cumulative quantum imports of steel scrap and finished products fell 20.1 percent during Jul-Mar, and were mainly responsible for the 15.1 percent drop in import values.

Meanwhile, upward pressure on imports came from some non-energy

[33] For details, see Chapter 5 of SBP's Second Quarterly Report of FY20.

commodities, like cotton, palm oil and pulses. For cotton, import values rose 34.9 percent during Jul-Mar, with the entire increase coming in the third quarter and due to higher volumetric imports.[34] In fact, quantum imports of cotton in Q3-FY20 surged to the highest level in any quarter since Q3-FY08. On the other hand, palm oil imports during Jul-Mar were virtually flat at last year's levels. However, unlike last year, average international prices had been rising since Q2, amid production shortfalls in Malaysia and Indonesia, and more than offset a slight decline in quantum imports.

[34] International cotton prices were, on average, down 0.6 percent YoY in Q3-FY20 and 15.5 percent in Jul-Mar FY20 (source: World Bank).