5 External Sector

Pakistan's external account showed signs of stabilizing in Q1-FY21 as the country managed to contain the initial domestic spread of Covid-19 and economic activities resumed from July onwards – helped by a significant easing in both the monetary and fiscal policy stances. Consequently, imports began to pick up, and were further accentuated by supply-side challenges faced in key agricultural commodities. The significant (31.7 percent YoY) reduction in global oil prices played a major role in curtailing energy and overall import payments, and alleviating some pressures from lower export receipts. Workers' remittances, on the other hand, proved to be instrumental in generating the first quarterly current account surplus in more than five years, as inflows reached a record high. The resulting improvement in the current account led to increased foreign exchange liquidity in the interbank market, and was reflected in a build-up in the country's foreign exchange reserves and an appreciation in the Pak Rupee. The available external financing, while lower than last year, was sufficient to meet official debt repayments.

5.1 Balance of Payments

As Pakistan managed to control the domestic spread of Covid-19 by the end of FY20, the policy focus during Q1-FY21 was geared towards reviving growth. This included fiscal support for the construction sector, higher PSDP spending, and concessionary lending for capex investments – along with continued progress on CPEC projects. At the same time, supply-side issues became prominent in food commodities like wheat and sugar, whereas cotton production was estimated to be substantially lower than its target. As a result, a surge in import demand was noted. International commodity prices displayed a mixed trend, with sharply lower energy prices offsetting upward pressures from higher food prices. Meanwhile, export receipts recovered from their Q4-FY20 troughs but remained lower than the same period last year. This was mainly due to continued weak import demand in advanced economy trading partners and temporary Covid-related relaxations that allowed exporters to hold their receipts abroad for an extended period. Still, Pakistan's export performance in the quarter was better than that of many other emerging markets.

Restrictions on air travel played a key role in determining the current account outcome, as they contributed to the record-high remittance inflows in Q1-FY21 by diverting flows from informal channels to formal ones, and also led to a sizable reduction in service import payments.

On the external financing side, the lower financing needs and a trend reversal in trade nostros helped commercial banks to build their foreign assets and retire short-term borrowings. This, along with the retirement of bilateral loans, more than offset the lower inflows from FDI and the government's multilateral and bilateral borrowings. The end-result was an increase in commercial banks' reserves of US$ 477 million (7.1 percent) during the quarter, and a further rise in the SBP's reserves. The available liquidity in the interbank market led to a 1.4 percent appreciation in the Pak Rupee during the quarter.

Pakistan's Balance of Payments **Table 5.1**

million US Dollar

	Q1-FY20	Q1-FY21	Absolute Change
Current account balance	-1,492	778	2,270
Trade balance	-5,048	-5,251	-203
Exports	5,985	5,363	-622
Imports	11,033	10,614	-419
Services balance	-1,098	-546	552
Primary income balance	-1,424	-1,526	-102
Secondary income balance	6,078	8,101	2,023
Workers' remittances	5,452	7,147	1,695
Capital account balance	110	77	-33
Financial account balance	-1,995	744	2,739
Direct investment inflow	546	415	-131
Portfolio investment inflow	344	-26	-370
Net incurrence of liabilities	957	31	-926
General government	1,092	1,423	331
Banks	-438	-642	-204
Central bank	3	-1,000	-1,003
Other sector	300	250	-50
Change in SBP's liquid reserves*	651.4	22.0	-
PKR app(+)/dep(-) in percent	2.4	1.4	-

*between end-June and end-Sep

Note: negative sign with financial account balance means FX inflow into Pakistan; positive sign means FX outflow

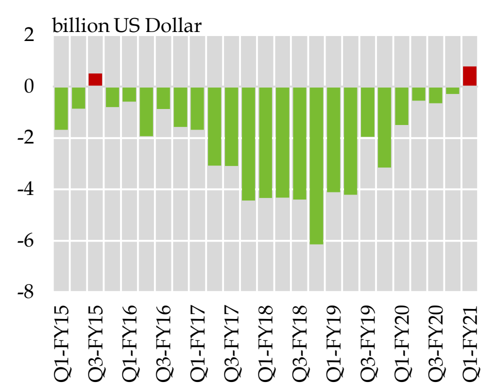
Source: State Bank of Pakistan

Current Account

After recording deficits in the last 21 quarters, Pakistan's current account (CA) posted a surplus of US$ 0.8 billion in the first quarter of FY21 **(Figure 5.1)**.[1] Record-high workers' remittances, low oil prices and a reduction in services imports mainly contributed to the improvement in the current account (**Table 5.1**).

Furthermore, the primary income deficit grew 7.2 percent YoY in Q1-FY21; this growth was lower than the 33.3 percent rise recorded in the same period last year. The increase in the deficit this year was mainly due to a rise in profit and dividend repatriation by foreign firms operating in the country (**Figure 5.2**). However, the higher profit repatriation was partially offset by a reduction in interest payments on external debt. The drop in LIBOR, along with the

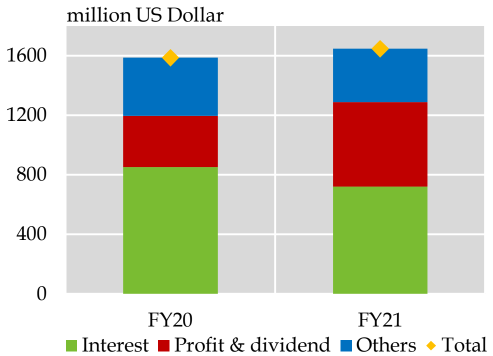
Current Account Balance **Figure 5.1**



Source: State Bank of Pakistan

[1] The current account surplus in Q3-FY15 (of US$ 0.5 billion) was mainly due to inflows received under the Coalition Support Fund (CSF), and a slump in global oil prices.

Outflow from Primary Income Account in Q1 **Figure 5.2**



Source: State Bank of Pakistan

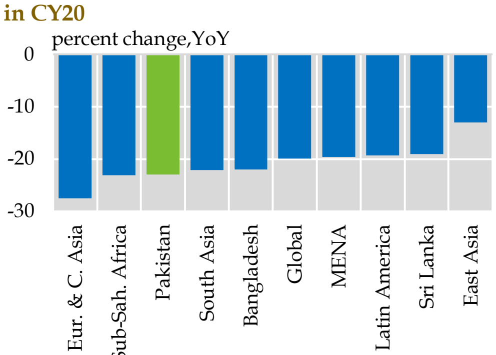
relief in debt servicing through the G20's Debt Service Suspension Initiative (DSSI) for the Covid pandemic, were the major factors behind the lower interest payments during the quarter.

Workers' Remittances

With Covid-19 paralyzing economic activities across the globe from March 2020 onwards, immigrants and expatriates residing in the developed and emerging economies were expected to become financially constrained due to the mobility restrictions and job losses. These developments were initially forecast to lead to a steep drop in the flow of remittances to the recipient economies **(Figure 5.3)**. In line with the weakening labor market conditions in the major destinations for migrant workers, the number of Pakistani workers going abroad for work also fell drastically from March 2020 onwards **(Figure 5.4)**. Furthermore, data from the Bureau of Emigration and Overseas Employment (BEOE) indicates that roughly 125,000 Pakistani workers have returned from abroad since the pandemic began (till mid-November 2020).

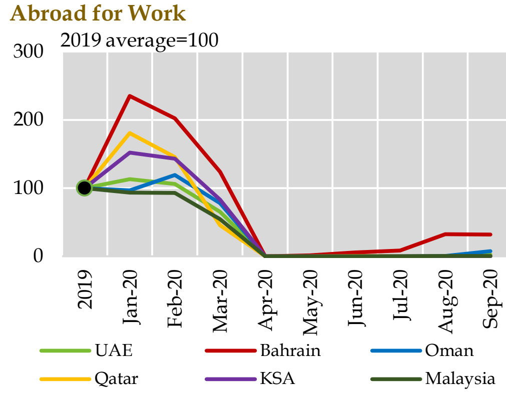
However, with the passage of nearly six months since the Covid outbreak (from April 2020 onwards), this feared drop in remittances has yet to materialize at least for some major recipients, including Pakistan **(Figure 5.5)**. In fact, workers' remittances to Pakistan grew 31.1 percent YoY to a quarterly record of US$ 7.1 billion in Q1-FY21, with all-time high monthly flow of US$ 2.8 billion realized in July 2020. Inflows rose from all major corridors, including the advanced economies and the Middle East region (**Table 5.2**). As a result, the World

Initial Projected Declines in Remittances to Major Recipients in CY20 **Figure 5.3**



Source: Migration & Development, World Bank, Apr-20

Trend in Pakistani Emigrants Going Abroad for Work **Figure 5.4**



Source: Bureau of Emigration & Overseas Employment

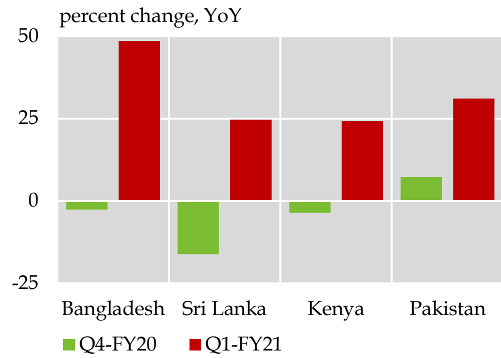
Country-wise Remittances in Q1 **Table 5.2**

million US Dollar

	FY20	FY21	Abs. Change
USA	388.6	632.6	244.0
U.K.	574.5	985.5	411.0
GCC	3,601.2	4,285.7	684.5
Saudi Arabia	1,556.5	2,080.5	524.0
UAE	1,318.3	1,420.8	102.6
o/w Dubai	1,114.8	1,140.0	25.2
Other GCCs	726.4	784.4	58.0
EU	448.9	601.4	152.5
Malaysia	58.1	56.3	-1.8
Others	381.2	585.6	204.3
Total	5,452.5	7,147.0	1,694.6

Source: State Bank of Pakistan

Actual Remittance Flows to Major Recipients after Covid Outbreak **Figure 5.5**



Source: State Bank of Pakistan & Haver Analytics

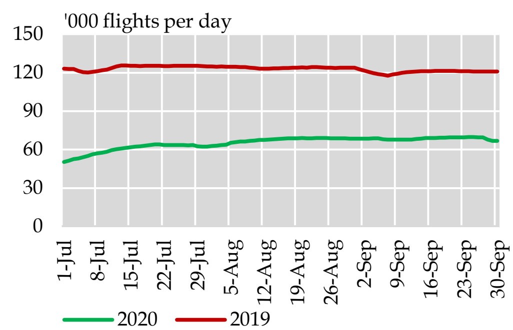
Bank has also significantly revised its forecast for remittances for CY20, from an initial projection of a 23 percent decline to a growth of 9 percent.[2] A major reason was the orderly foreign exchange rate conditions throughout the pandemic, which helped create a conducive environment for remitters to send money to Pakistan. Some other possible factors behind this favorable development are discussed below.

(i) Air travel restrictions: Formalization of informal remittance flows and build-up in savings

As lockdowns went into effect across the globe from March 2020 onwards, air travel was among the first activities to become restricted. At the peak of the lockdowns, the global commercial air travel was down almost 80 percent from a year ago.[3] While some air travel has resumed since then, the daily number of flights was still down around 47 percent in Q1-FY21 on YoY basis **(Figure 5.6)**.

Previously, air travel used to be a major source of cross-border funds transfers. The informal channel involved sending funds (cash) through friends or family members travelling from one country to another. Meanwhile, the other channel comprised hundi/hawala agents, which specifically utilized air travel to transfer funds from one

Trends in Commercial Air Travel (Jul-Sep) **Figure 5.6**



*based on real-time tracking of over 180,000 flights

Source: Flightradar24.com

[2] World Bank (2020). *COVID-19 Crisis through a Migration Lens*. Migration and Development Brief 32. Washington, DC: World Bank.

[3] On April 12, 2020, the number of commercial flights was down 79.7 percent from the same day in 2019, according to data from Flightradar24.com.

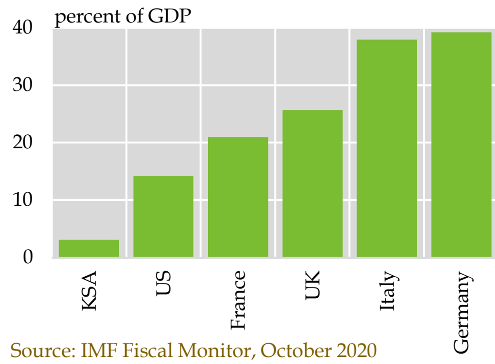
country to another, generally in large volumes. With the severe restrictions on air travel, funds transfers through both these channels came to a near-halt, and likely played a major role in pushing expatriates to adopt formal banking channels to remit funds back home.

At the same time, the air travel restrictions, including curbs on religious travel, likely contributed to a build-up in savings with the overseas diaspora. As a result, expatriates were able to remit back higher funds.

(ii) Post-outbreak fiscal support has helped shore up expatriates' incomes

The unprecedented fiscal and monetary support measures in the world's top migrant-destination economies in the western hemisphere and the Middle East have likely played a key role in supporting workers' cash flows, either via continued provision of wages or through cash transfers (**Figure 5.7**). The global economic policy response to the Covid-19 pandemic has amounted to a staggering US$ 11.7 trillion or 12 percent of global GDP.[4] The policies across the major destinations can be broadly categorized into two major areas: (i) measures that directly impact budgetary balances (like targeted cash transfers, unemployment benefits, and tax concessions); and (ii) liquidity injections into firms via equity and debt, as well as government guarantees for loans undertaken by firms. It is likely that many migrants, including those from Pakistan, benefited from these fiscal measures and were able to continue sending funds back home.

Post-Outbreak Fiscal Policy Support in Major Migrant Destinations **Figure 5.7**



Source: IMF Fiscal Monitor, October 2020

(iii) Covid-related incentives to formalize remittance flows

After the Covid outbreak, Pakistan and Bangladesh were among the countries that announced incentives to attract remittances via formal channels. In Pakistan, the SBP announced new measures on April 15, 2020, to encourage banks and exchange companies to process higher amounts of remittances.[5] These included a doubling in the rate of reimbursement for telegraphic transfer (TT) charges; [6] and the introduction of a tiered-based system to reimburse marketing transactions (where higher growth in remittances would lead to higher reimbursement of marketing charges).[7] The banks were also encouraged to promote

[4] As of September 11, 2020 (IMF (2020). Fiscal Monitor October 2020: Policies for the Recovery. Washington, DC: International Monetary Fund).

[5] Via EPD Circular Letters 11 and 12 of 2020.

[6] For remittance transactions between US$ 100-200, the per-transaction reimbursement rate for TT charges was increased from SAR 10 to SAR 20.

[7] ADs generating remittances above the defined threshold growth became eligible to receive Rs 0.5, Rs 0.75 and Rs 1 for every US dollar generated.

digital channels for sending and receiving remittances and to introduce incentive schemes for their own customers. Furthermore, from July 1, 2020, withholding tax was exempted on cash withdrawals, issuance of banking instruments, and on transfers from domestic bank accounts, to the extent of the amount of remittances received into the accounts in a year.[8]

(iv) Digitization and other longstanding efforts to formalize inflows

The Covid pandemic has accelerated the adoption of digital channels for service delivery across the world, including in Pakistan; these efforts have also likely contributed to the recent rising trend in remittances.[9] The SBP and the government, under the Pakistan Remittance Initiative (PRI), had already been encouraging banks and other service providers to utilize digital channels to attract remittances. The PRI launched a scheme to channelize remittances via mobile wallets (m-wallets) in 2017 by awarding cell phone airtime for every US dollar (or equivalent) received into m-wallets; in January 2019, the benefit under the scheme was raised to Rs 2 for every US dollar received. The scheme relies on the 12 Branchless Banking Operators (BBOs) that have a network of 400,000 branchless banking agents across the country, including in the remote areas.[10] Also, the outreach of the domestic remittance-distribution network has increased substantially over the past decade: already over 1,000 non-exclusive bilateral arrangements existed as of June 2019 between domestic financial institutions and foreign entities, against only 80 such arrangements in 2009.

Financial Account

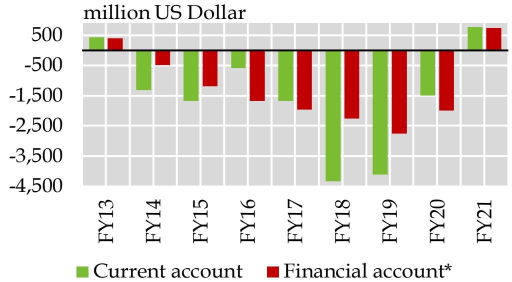
After a gap of seven years, the financial account recorded a net outflow in Q1-FY21. However, this net outflow was nearly of the same magnitude as the surplus in the current account (**Figure 5.8a**). The reduced external financing needs and a build-up in trade nostros with commercial banks helped them increase their foreign assets and retire short-term foreign exchange borrowings. This, along with the retirement of bilateral loans, more than offset the lower inflows from FDI and the government's multilateral and bilateral borrowings during the quarter **(Figure 5.8b)**.

Foreign direct investment

FDI inflows to low and middle-income countries in CY20 were projected to fall by over 30 percent.[11] Even before the Covid pandemic, the investment outlook was already weak, in the wake of slowing global

[8] Similarly, in May 2020, Bangladesh relaxed the limit for transfer from US$ 1,500, to US$ 5,000 for awarding 2 percent cash incentive to the beneficiary without any verification.
[9] For details, see the Special Section titled "Covid-19 and the Need to Boost Digital Connectivity in Pakistan" in the SBP's Annual Report on the State of Pakistan's Economy for FY20.
[10] Apart from BBO, the domestic remittances distribution network consists of 24 banks, 5 microfinance banks and 17 exchange companies.
[11] KNOMAD (2020). Phase II: COVID-19 Crisis through a Migration Lens. Migration and Development Brief 33. Washington, DC: Global Knowledge Partnership on Migration and Development. KNOMAD is a global hub of knowledge and policy expertise on migration and development, supported by a multi-donor trust fund established by the World Bank (knomad.org/publication/migration-and-development-brief-33).

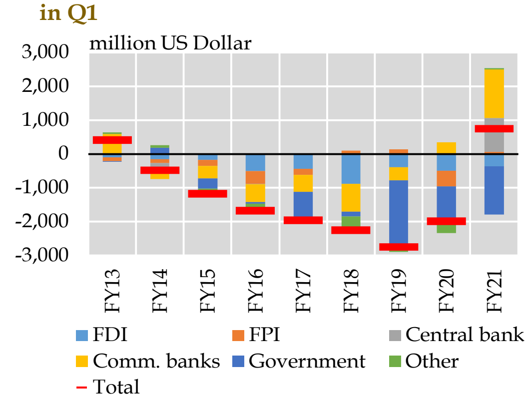
Current and Financial Account Balances in Q1 **Figure 5.8a**



*A positive number for the financial account balance reflects a net FX outflow from the country and negative number a net FX inflow

Source: State Bank of Pakistan

Financial Account Breakdown in Q1 **Figure 5.8b**



growth, falling commodity prices and rising protectionism; the pandemic shock further aggravated these foreign investment prospects.[12] After the Covid outbreak, investors' confidence was further eroded by the disruption in input supplies, rising uncertainties, and liquidity and credit constraints for multinational corporations (MNCs). Moreover, re-invested earnings which have a significant share in FDI were likely impacted as well, whereas investments into new projects could have been withheld due to the prevailing uncertainties.

In the case of Pakistan, however, the ripple effect was not felt as strongly because FDI is mainly concentrated in long-term projects, involving government-level collaboration. While net FDI into Pakistan during Q1-FY21 fell by 23.8 percent over the same period last year, the decline primarily reflected the base year effect, as last year's FDI was inflated by a one-time inflow into the telecom sector to pay the GSM license renewal fees.[13] Adjusting for this one-off development, the

Sector-wise Net FDI inflow in Q1 **Table 5.3**

million US Dollar

	FY20	FY21	Abs. Change
Food	8.7	5.6	-3.1
Textiles	17.3	5	-12.4
Chemicals	-2.8	-5.4	-2.7
Oil & Gas Explorations	39.8	67.2	27.4
Pharma. & OTC Products	13.8	4.7	-9
Electrical machinery	65	36.5	-28.5
Electronics	-9.5	0.4	9.9
Transport equipment	4.4	-0.7	-5.1
Power	32.3	113.3	81.1
Communications	307.4	37.5	-269.9
Financial business	30.7	102.5	71.8
Others	38.5	49	10.5
Total	**545.5**	**415.7**	**-129.8**

Source: State Bank of Pakistan

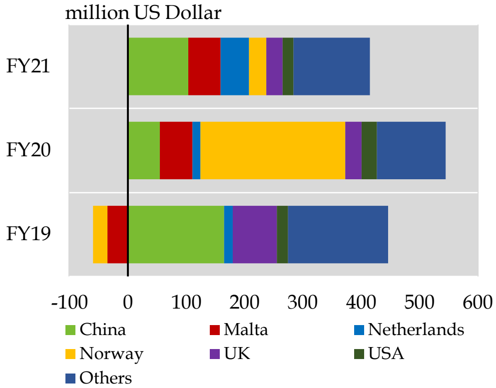
net FDI rose by around 75 percent in Q1-FY21 over last year where higher inflows were recorded in power, oil & gas exploration and financial business. These inflows partially offset the drop in other sectors (**Table 5.3**).

[12] World Bank (2020). G*lobal Investment Competitiveness Report 2019/2020 : Rebuilding Investor Confidence in Times of Uncertainty*. Washington, DC: World Bank.

[13] In FY20, a cellular company received funds from its parent company to pay the license renewal fee.

Disaggregated analysis shows that FDI inflows during the review period are partially attributed to investment from China to finance the ongoing work on CPEC-related projects.

Country-wise FDI in Q1 **Figure 5.9**



Source: State Bank of Pakistan

With substantial increase in these inflows, China's share in the country's net FDI rose to 24.9 percent in Q1-FY21 from 10.2 percent in Q1-FY20 **(Figure 5.9)**. Apart from CPEC-related inflows from China, FDI was mostly concentrated in financial business, oil and gas exploration, and communications sectors.

CPEC has now entered its second phase, with the planned emphasis shifting from infrastructure development to industrial development, agriculture mechanization, tourism, high-tech finance, and social development. Several Special Economic Zones (SEZs) are going to be established that could enhance the country's productive capacity, expand the exports base, and provide a major impetus for economic and social development through their backward and forward linkages with the rest of the domestic economy.

However, FDI in Pakistan remains concentrated in a few non-export oriented manufacturing sectors, such as power, construction, financial business, oil and gas exploration, electric machinery and telecommunications. In Q1-FY21, these sectors attracted around 90 percent of total FDI that came into the country, while investment in key exporting sectors, such as textiles, food and leather products, had a very little share in the total investment. This suggests the need to continue promoting foreign investment in export-oriented manufacturing sectors to further boost overall exports.

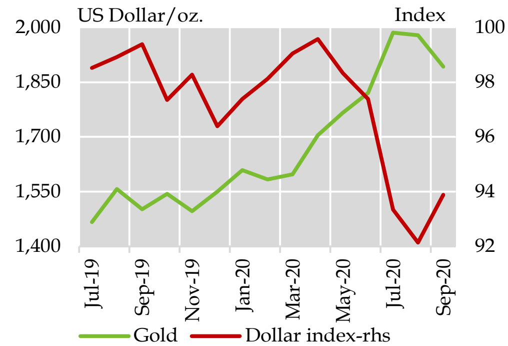
Furthermore, the government has carried out several reforms under the IMF's Extended Fund Facility (EFF) program to enhance trade and investments by improving business climate. Significant improvement has been made in simplifying the registration processes, automating land records, introducing online/electronic tax payments, and facilitating cross-border trade by improving electronic submissions and processing of trade documents. Resultantly, Pakistan is now ranked 108th out of 190 countries in the Ease of Doing Business ranking in 2020, up by 28 places as compared with 2019.[14] The SBP has also simplified the procedure for repatriation of profit and disinvestment proceeds and made the process more convenient for foreign investors. Under the new mechanism, the cross-border payments can be made directly by the commercial banks without first referring to the SBP.[15]

[14] Source: World Bank Doing Business Index 2020
[15] sbp.org.pk/epd/2020/FEC5.htm

Foreign portfolio investment

With the start of the Covid pandemic, emerging markets (EMs) witnessed a massive outflow of portfolio investment. The investors started shifting their portfolios to safe assets like the US dollar and gold from equities, to hedge against expected volatility in the equity market. Although the markets in emerging economies somewhat recovered from the lows observed in the early days of the pandemic, the portfolio investment outflows by the foreign investors continued due to uncertainty over new waves of infections. In the meantime, the US dollar started weakening against the major currencies, which further increased the demand for gold and put upward pressure on its price (**Figure 5.10**).[16] Moreover, the central banks were also aggressively cutting interest rates during the pandemic to stimulate domestic economies. The lower yields may have created disincentive for debt market investors, as the bond prices started to rise and thereby reduced yields.

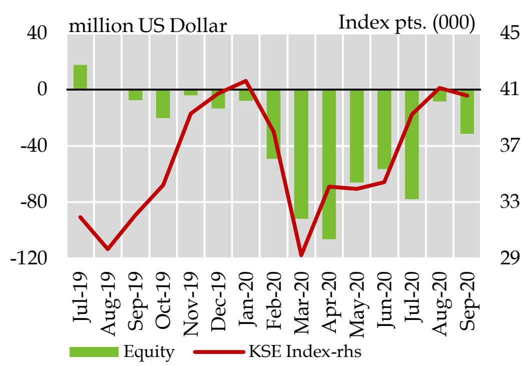
Values of US Dollar Index and Gold Prices **Figure 5.10**



Source: Bloomberg

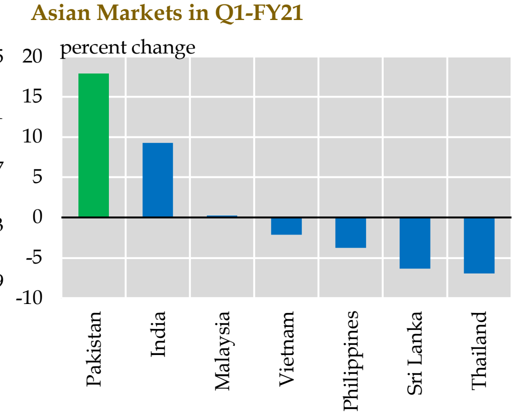
In this backdrop, foreign portfolio investment in Pakistan in Q1-FY21 remained subdued, with outflows recorded from both debt and equity markets. In contrast to high foreign investment seen in debt securities in Q1-FY20, there was an outflow of US$ 37.4 million in Q1-FY21. Similarly, foreign portfolio investors also pulled out US$ 117.7 million from the equities in the quarter (**Figure 5.11a**). In terms of regional performance, Pakistan's equity market performed well compared to some other Asian equity markets, reflecting the

Equity Investment & KSE-100 Index **Figure 5.11a**



Source: SBP, Pakistan Stock Exchange & Bloomberg

Equity Price Movement in Asian Markets in Q1-FY21 **Figure 5.11b**



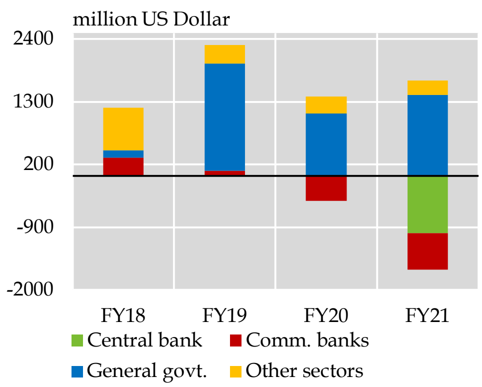
[16] Gold traded at US$ 1,893/oz. in September 2020, against US$ 1,466/oz. in July 2019.

country's relatively better economic management during the pandemic (**Figure 5.11b**). The equity market had recovered with KSE-100 index rising by around 17.9 percent in Q1-FY21.

Net Incurrence of Liabilities

The net inflow of external loans into the country amounted to only US$ 31.0 million in Q1-FY21, as compared to US$ 957 million in the same quarter last year. The lower net inflows were mainly on account of: (i) repayment of bilateral loan by the central bank; and (ii) retirements of short-term foreign exchange borrowings by commercial banks (**Figure 5.12**). Nonetheless, an increase in the net liabilities incurred by the government was noted during the quarter.

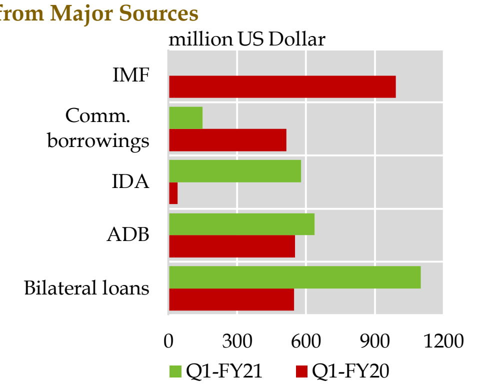
Net Incurrence of Liabilities in Q1 **Figure 5.12**



Source: State Bank of Pakistan

With regards to official inflows, the government's borrowings were sufficient to cover both its own and the central bank's loan repayments, without having any impact on the official reserves.[17] In gross terms, the government borrowed US$ 2.9 billion in Q1-FY21, which was slightly lower than last year. While last year's government borrowing was dominated by the IMF tranche of US$ 991.4 million, bilateral inflows of US$ 1.1 billion comprised the government borrowings this year (**Figure 5.13**).

Government's Gross Official Loans from Major Sources **Figure 5.13**



Source: SBP & Economic Affairs Division (GoP)

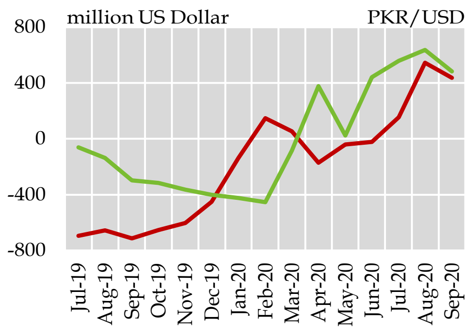
Besides bilateral loans, the disbursements by IFIs (other than IMF) were higher in Q1-FY21 over the same period last year. The continued support from the major IFIs, like the World Bank, Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB), bodes well in terms of debt servicing cost for the government.

5.2 Exchange Rate and Reserves

In line with developments in the balance of payments position, the country's foreign exchange reserves rose 2.6 percent during the quarter to US$ 19.4 billion by end-September 2020. Within these, the SBP's foreign exchange reserves increased by 0.2 percent to US$ 12.2 billion; indicating that the available inflows were sufficient to meet debt

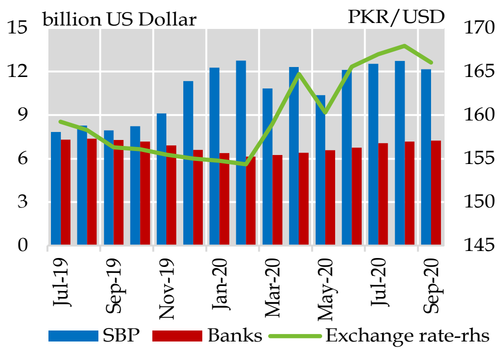
[17] With almost no change in Q1-FY21, the SBP Reserve stood at US$ 12.2 billion as of end-September 2020.

Trend in Banks' Trade Nostros & Exchange Rate **Figure 5.14a**



Source: State Bank of Pakistan & Haver Analytics

PKR Exchange Rate & Liquid FX Reserves **Figure 5.14b**



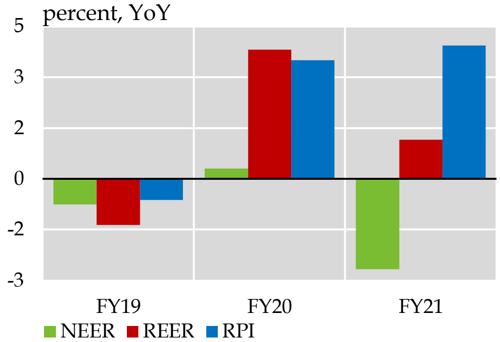
repayments. Meanwhile, the commercial banks' liquid FX reserves increased by 7.1 percent to US$ 7.2 billion in Q1-FY21, and were the driving factor behind the country's overall reserves trajectory as well as the exchange rate movements during the quarter.

The Pak Rupee parity appreciated by 1.4 percent against the US dollar in Q1-FY21, as compared to a 2.4 percent increase witnessed in Q1-FY20. It is worth noting that the appreciation observed last year was primarily driven by the receipt of the first EFF tranche, reengagement with IFIs in the wake of the start of the IMF program, improvement in the current account after the May 2019 adoption of the market-based exchange rate regime, and receipt of portfolio inflows into debt securities. This appreciating trend in the Pak Rupee had continued till February 2020, before the onset of Covid-19. Subsequently in March-June 2020, the Pak Rupee had also witnessed some depreciation, although this was comparatively lower than depreciations recorded by major emerging markets like Brazil, Russia, South Africa and Turkey.

However, the Pak Rupee appreciation in Q1-FY21 was supported by the sizable improvement in the current account balance and a trend reversal in commercial banks' trade nostro balances abroad from June 2020 onwards (**Figure 5.14a**). The inflows under trade nostros contributed to the build-up in the commercial banks' reserves (instead of SBP's reserves), and improved the foreign exchange liquidity in the interbank market. Under these circumstances, the Pak Rupee appreciated against the US dollar during Q1-FY21 (**Figure 5.14b**).

Despite this appreciation in the parity, however, the Nominal Effective Exchange Rate (NEER) depreciated by 2.7 percent in Q1-FY21, as compared to 0.3 percent appreciation recorded in the same period of FY20 (**Figure 5.15**). Appreciation in a number of trading partners' currencies against the US dollar outpaced the gain in the Pak Rupee against the US dollar, which led to the decline in the NEER. Meanwhile, the Real Effective Exchange Rate (REER) appreciated by 1.2 percent in Q1-FY21. Higher domestic inflation relative to the inflation in the trading partners of Pakistan, led to the appreciation in the REER in this quarter.

Change in Effective Exchange Rate* in Q1 **Figure 5.15**



*Depreciation (-)/ Appreciation(+)

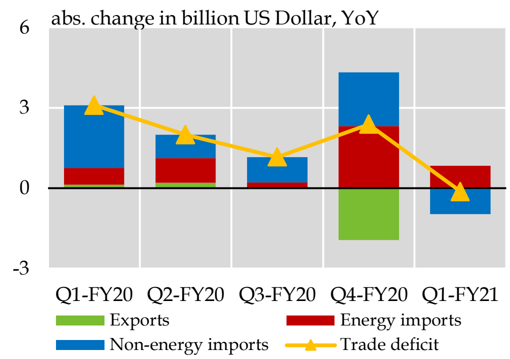
Source: State Bank of Pakistan

5.3 Trade Account[18]

The trade deficit widened during Q1-FY21 on YoY basis for the first time in over two years and reached US$ 5.8 billion, mainly due to a reversal in the declining trend in imports (**Figure 5.16**). Unlike last year when the policy stance was geared towards achieving macroeconomic stabilization, the fiscal and monetary policies in Q1-FY21 were coordinated to revive growth and encourage long-term capex investments after the Covid-induced contraction by the end of FY20. This policy stance – coupled with rising prices of non-energy commodities and supply gaps in the availability of key agricultural commodities – led to an increase in imports during the quarter (**Figure 5.17**).

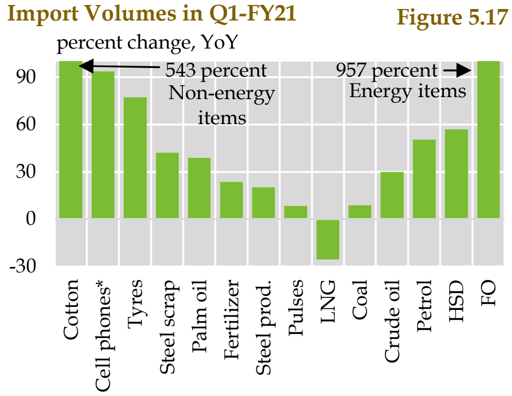
With imports rising, exports were stable at last year's level; that said, exports did depict a V-shaped recovery and were up significantly over the Covid-impacted Q4-FY20 (**Figure 5.18a**). In fact, Pakistan was among those economies whose exports recovered more strongly in Q1-FY21 on a QoQ basis (**Figure 5.18b**). The country's relatively better performance in keeping Covid cases under check allowed the easing of lockdowns from the start of FY21, which allowed industrial and transport activities to resume. As the quarter progressed and economic activity picked up, export volumes

Breakdown of Change in Trade Deficit **Figure 5.16**



Source: Pakistan Bureau of Statistics

Import Volumes in Q1-FY21 **Figure 5.17**

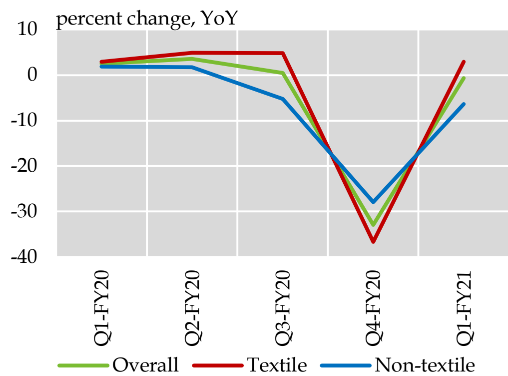


*growth in number of units imported

Source: Pakistan Bureau of Statistics

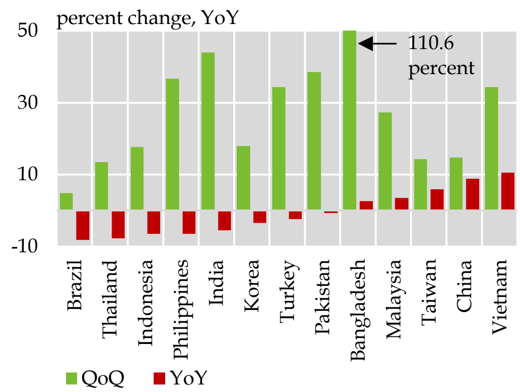
[18] This section is based on customs data reported by the PBS. The information in this section does not tally with the payments record data, which is reported in **Section 5.1**. To understand the difference between these two data series, see Annexure on data explanatory notes.

Trend in Pakistan's Export Growth **Figure 5.18a**



Source: Pakistan Bureau of Statistics & Haver Analytics

EMs' Export Growth in Q1-FY21 **Figure 5.18b**



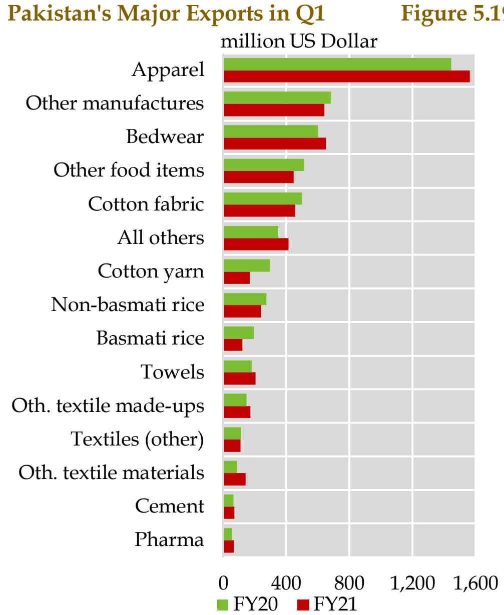
of industries like textiles, cement and pharmaceutical products, also rebounded. The improved export performance of these sectors partially offset weaker exports of food commodities, especially rice.

Exports

The country's exports rebounded to US$ 5.5 billion in Q1-FY21 from the 14-year low level of US$ 4.0 billion in the Covid-impacted Q4-FY20. However, on YoY basis, the exports were stable at last year's comparable level. It is worth noting that exports had risen during both July and September 2020 on a YoY basis, but overall Q1 exports were dragged down by the sharp 14.8 percent drop in August 2020, when record rainfalls, especially in the port city of Karachi, had disrupted intra-country transport activity.[19]

Among the major products, textiles and cement exports posted YoY growths, which helped partially offset weaker exports of food items and various other manufactured products (**Figure 5.19**). Meanwhile,

Pakistan's Major Exports in Q1 **Figure 5.19**

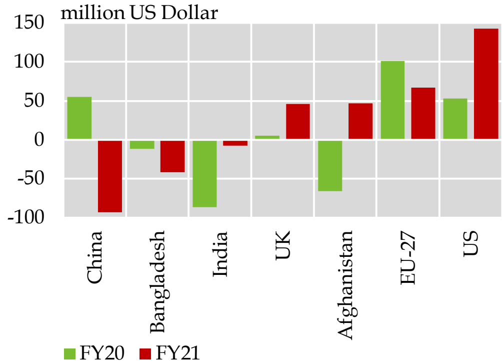


Source: Pakistan Bureau of Statistics

destination-wise data indicates a YoY pick-up in exports to the advanced economies (US, UK and the EU-27) during the quarter (**Figure 5.20**), mainly on the back of higher textile exports. In contrast, most of the YoY

[19] On a yearly basis, exports had grown 6.1 percent in July, before dropping in August and then again rising by 6.9 percent in September 2020.

Change in Exports to Major Destinations in Q1 **Figure 5.20**



Source: Pakistan Bureau of Statistics

stagnation in exports could be traced to the UAE and China, with rice and cotton yarn respectively emerging as the major drags (as discussed below). Within the South Asia region, exports to Afghanistan were strong on the back of some diversion of rice from the traditional Middle Eastern markets; whereas lower fabric exports to Bangladesh led to a drop in overall exports to the country during the quarter.

High value-added segment props up overall textile exports

The textile sector's export performance recovered in Q1-FY21 from the Covid-impacted Q4-FY20, with export values rising 2.9 percent YoY to US$ 3.5 billion; on QoQ basis, the growth was a much higher 64.1 percent. Customs records indicate that this YoY growth mostly originated from higher unit values.

The EU-27 market (excluding the UK) presented a challenging environment, as the bloc's overall apparel imports continued to drop sizably amid the uncertain retail environment due to the second and third waves of Covid. The bloc's apparel imports

Growth in EU-27's Apparel Import Volumes from EMs during Q1 **Table 5.4**

percent

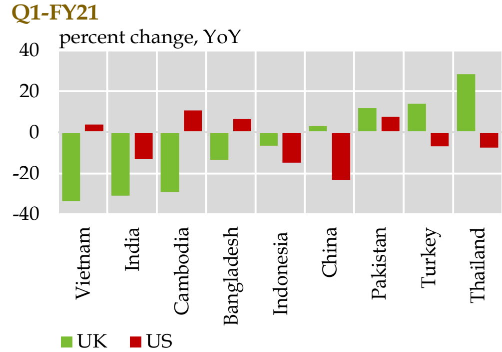
	FY20	FY21
India	0.6	-18.1
China	-1.0	-17.6
Cambodia	-9.6	-24.0
Indonesia	-0.9	-17.7
Vietnam	1.2	-3.8
Bangladesh	-1.9	-9.7
Turkey	5.7	5.7
Thailand	-1.9	-2.7
Pakistan	**7.4**	**-5.9**
Overall (Extra-EU 27)	0.6	-11.0

Source: Eurostat

from Pakistan as well as other suppliers declined during Q1 (**Table 5.4**); though it is worth noting that the drop in imports from Pakistan was much lower than that from many other EMs.

Similar to the EU-27, the overall import demand for apparel from the US as well as the UK was also quite weak; however, what was different was that these two countries appeared to significantly increase their imports from Pakistani manufacturers during the quarter (**Figure 5.21**). In the US, Pakistani exporters (along with those from other major textile manufacturing countries) continued to benefit from China's withdrawal from the US' apparel market, as

Growth in Apparel Import Volumes of the UK & US in Q1-FY21 **Figure 5.21**



Source: Eurostat & OTEXA, US Dept. of Commerce well as Covid-related disruptions in supplies from India.

Meanwhile, Pakistan's exports of home textile items – comprising bed wear and towels –grew 6.2 percent to US$ 829.9 million in Q1-FY21, whereas those of other textile materials and textile made-ups recorded a cumulative increase of 33.5 percent and reached US$ 314.3 million. It is worth noting that most of Pakistan's exports of masks and other personal protective equipment (PPEs), especially cotton-based gowns, are captured under the two above-mentioned categories.

In the low value-added textile product segment, comprising yarn and fiber, Pakistan's exports declined 21.2 percent to US$ 627.5 million in the quarter. Disaggregated data indicates heavy quantum-led drop in yarn exports to China. China's ongoing trade disputes with the US, along with the lower global apparel demand in general, have disrupted its textile industry value chain and reduced the country's import demand for textile raw materials.[20] Similarly, Pakistan's fiber exports were mainly pulled down by lower shipments to Bangladesh, whose own import demand of cotton-based raw materials was low amid availability of higher inventories by end-July.[21]

While the export performance of the textile sector – especially the apparel, home textiles and other cotton-based textiles – appears resilient so far, this performance is yet to translate into equivalent foreign exchange receipts for the country. Specifically, the overall textile export earnings (based on SBP data) declined 10 percent YoY in Q1-FY21. There are a few possible explanations for this.

First, anecdotal evidence suggests that exporters are utilizing the SBP's temporary Covid-related regulatory relaxations, which allowed them to hold back export receipts for up to 270 days after exporting their goods, up from the previous time limit of 180 days.[22] This also tallies with the build-up in the nostro balances with Pakistani banks abroad in the quarter (**Section 5.2**). And second, some exporters might be selling their export proceeds in the forward market; these transactions would increase foreign exchange liquidity in the interbank market, but would not be recorded in the exports data until the settlement of the forward contracts.

Higher international unit prices suppress demand for Pakistani rice

The country's rice exports dropped 23.5 percent to US$ 808.4 million in the quarter, with lower export volumes of both basmati

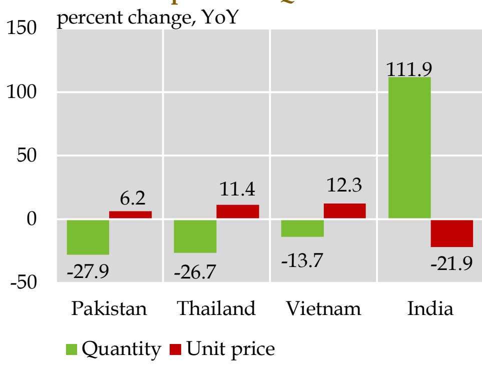
[20] China's imports of cotton and cotton-based raw materials fell by a sizable 26.0 percent in the year ending July 2020, whereas ending cotton stocks in the country were up 3.4 percent from the start of the year in July 2019 (source: Cotton World Markets and Trade Report October 2020, USDA).
[21] By end-July 2020, Bangladesh's ending stocks of cotton had amounted to 526,000 MT, higher than 388,000 MT at end-July 2019 (USDA (2020). *Cotton World Markets and Trade Report October 2020*. Washington, DC: United States Department of Agriculture.). This reduced the country's import demand for cotton and cotton-based products (under HS Code 52); as per ITC data as of December 1, 2020, these imports had dropped 95.3 percent in volume terms during Q1-FY21 (source: ITC). In line with this reduction in Bangladesh's import demand, Pakistan's fabric and yarn export volumes to the country dropped 43.7 percent and 10.9 percent respectively during the same period.
[22] Via EPD Circular Letter No. 7 of 2020, dated March 20, 2020.

and non-basmati rice responsible for the lower export values.

International prices of non-basmati rice varieties from Pakistan as well as from other major suppliers like Thailand and Vietnam were higher in this quarter, amid tight supplies ahead of the arrival of fresh crops. The higher prices encouraged major rice importers, especially in the fiscally challenged African economies, to shift their purchases to the lowest-cost supplier – India. The Indian exporters were able to price rice at much lower rates given the availability of relatively higher stocks in the country.[23] As a result, India was able to export significantly higher quantities in the quarter **(Figure 5.22 and 5.23a)**.

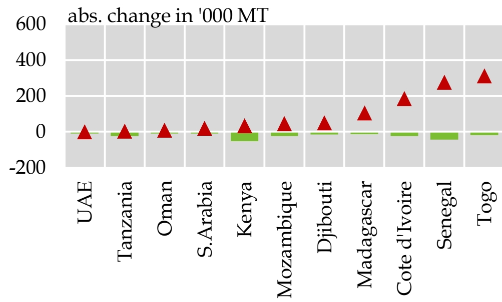
In the basmati segment, Pakistan's export volumes to the UAE dropped by a sharp 77.4 percent YoY during Q1-FY20; this drop to the UAE alone accounted for almost 62 percent of the decline in Pakistan's overall basmati exports in the period. Anecdotal evidence suggests that last year, Pakistan was indirectly meeting some of Iran's rice demand by shipping the grain to the UAE, from where it was transshipped to the Persian Gulf country. This year, due to the deepening BoP challenge in Iran, the foreign exchange payment channels for such transactions became limited, and ultimately reflected in Pakistan's lower exports to the UAE. Instead, Iran appeared to divert its rice

Growth in Export Quantities & Unit Prices of Rice Exporters in Q1-FY21 **Figure 5.22**

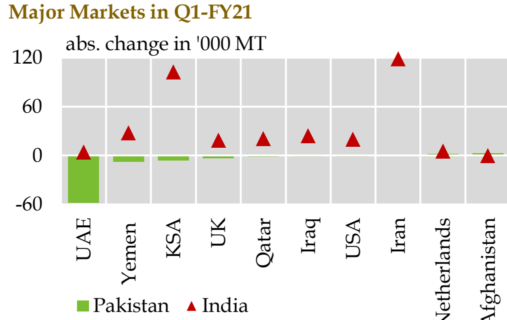


Source: PBS, Haver Analytics & DGCIS (India)

Pakistan & India's Non-Basmati Exports to Major Markets in Q1-FY21 **Figure 5.23a**



Pakistan & India's Basmati Exports to Major Markets in Q1-FY21 **Figure 5.23b**



Source: PBS & DGCIS (India)

[23] Rice production in India had risen 1.7 percent in 2019-20 YoY, whereas it had declined 1.4 percent in Pakistan (Source: USDA 2020. *World Agricultural Production Report October 2020*. Washington, DC: United States Department of Agriculture). Over the past four years (2016-17 to 2019-20), closing rice stocks in India have risen at a CAGR of 9.9 percent. Moreover, the USDA is projecting a record rice crop in India as well as record rice exports in the ongoing (2020-21) year (Source: USDA 2020. *Grain World Trade Report October 2020*. Washington, DC: United States Department of Agriculture).

demand to India (**Figure 5.23b**), with which it already has a barter-like trade mechanism in place. Meanwhile, Pakistan's basmati exports to other traditional Middle Eastern and European markets were also relatively weak, with exporters mostly losing market share to Indian competitors.[24]

Cement export volumes reach 7-year high

Among other major items, cement exports recorded a decent growth of 8.3 percent and reached US$ 72.3 million in the quarter, on the back of 7-year high export volumes. Disaggregated data shows that export volumes of clinker (a raw material used to make cement) rose significantly to the traditional markets, like Sri Lanka, China and Bangladesh. Heavy public investment in infrastructure is a key plank of China's "dual circulation" model to derive economic growth from local sources, leading to an uptick in cement production and construction activities to boost its economy after the Covid.[25] In case of Sri Lanka, a switch appeared to be underway, where the country imported higher volumes of clinker from Pakistan but lowered its purchases of finished Portland cement.

Imports

Imports increased slightly by 0.8 percent to US$ 11.3 billion in Q1-FY21, as opposed to declining by 20.9 percent Q1-FY20. The rise in values came entirely from a wide array of non-energy imports, which rose for the first time since Q1-FY18 mainly on account of cell phones, palm oil, raw cotton, and power generating machinery. These imports dominated the impact of price-driven lower energy imports in the quarter (**Table 5.5**).

A common theme that emerged across almost all major categories of imports was volumetric increases. The QoQ volumetric growth could be attributed to revival of economic activities from the pandemic and stronger Rupee, providing some relief amidst rising international commodity prices.[26]

Meanwhile, the YoY growth could be traced to the following major factors: lower interest rate environment; adverse agricultural supply shock and forward buying by food importers to cater to winter demand amidst fears of second wave of Covid, leading to higher food imports[27]; shortfall in domestic cotton production and demand from the

[24] Here, it is also worth noting that in September 2020, India filed a claim with the EU, asking for an exclusive geographic indicator (GI) tag for basmati rice grown in its northern provinces. With a GI tag, a product is recognized to have specific and distinct characteristics that are exclusive to a particular area where it is produced. If India's claim is granted by the EU, then Pakistan would not be able to market its rice using the 'basmati' label in the EU. Pakistani rice exporters and the government are currently challenging India's GI tagging claim for basmati rice.

[25] Local cement production in China had risen 6.0 percent in Q1-FY21, higher than the rate of 5.6 percent in Q1-FY20 (source: Haver Analytics).

[26] After declining by 30.6 percent QoQ in Q4-FY20, LSM Index grew by 28.7 percent in Q1-FY21. Between April 1, 2020 and September 30, 2020, the Pak Rupee appreciated by 0.7 percent; whereas during the corresponding period of 2019, it had depreciated by 9.9 percent. Average international commodity price indices rose 5.6 percent YoY and 4.5 percent QoQ in Q1-FY21 (Source: World Bank).

[27] Many countries around the globe, including Pakistan, Jordan, Morocco and China, have been stocking up food supplies as the Covid-19 cases resurge around the world. Furthermore, demand-driven rising international food prices have also incentivized forward buying by the food importers.

export-oriented textile sector, leading to higher textile imports; higher gross FDI inflow into the power sector, prompting imports of power-generating machinery for projects under CPEC; higher demand for energy products due to increased spending on construction activities, heavier road transportation, and peak power demand during the summers.

With the effort to support local industrial production, the government's accommodative policy environment may also have contributed in pushing imports up in Q1-FY21. It was reflected, on one end, in the concessionary lending for capex investments, and, on the other end, either in the reduction of customs duty or removal of additional customs duty on a number of raw materials and intermediate goods, such as edible oils and seeds, raw cotton, and hot rolled coils, imported for domestic use. Besides, government also removed segregated advance tax rates levied on filers and non-filers.[28] The government also enhanced the monitoring of borders for illicit movement of assorted items, like motor vehicles, cloth, Iranian diesel, and cigarettes, bringing those imports to the formal channel.[29]

Pakistan's Major Imports in Q1 — **Table 5.5**

million US Dollar

Items	FY20	FY21	Abs. Change
Energy group	**3,169.7**	**2,328.1**	**-841.6**
POL prods.	1,319.9	1,126.1	-193.8
Crude oil	823.3	692.7	-130.6
LNG	965.6	419.9	-545.7
Agri and chem	**1,815.2**	**1,922.9**	**107.7**
Fertilizer	127.7	149.7	22
Other chem.	926.6	928.5	1.9
Transport group	**538.1**	**414.3**	**-123.7**
CBUs	29.3	65.9	36.6
CKDs	261.4	180.7	-80.7
Aircraft & ships	131.1	86.7	-44.4
Metals group	**1,005.5**	**1,084.0**	**78.5**
Iron & steel scrap	388.8	484.9	96.1
Iron & steel	370.6	375.1	4.6
Food group	**1,097.4**	**1,712.5**	**615.1**
Tea	102.2	142.0	39.7
Palm oil	362.4	579.0	216.6
Wheat unmilled	0.0	101.8	101.8
Sugar	0.6	13.2	12.6
Other items	405.6	588.8	183.2
Textile group	**450.9**	**676.8**	**225.8**
Raw cotton	37.4	208.1	170.7
Synthetic fiber	114.1	142.1	28
Synth. silk yarn	118.5	140.5	22.1
Machinery group	**2,032.2**	**2,105.4**	**73.2**
Power gen	312.1	424.1	112
Electrical	506.0	324.2	-181.9
Cell phones	269.1	492.9	223.8
Other mach.	551.2	525.6	-25.6
All other items	**878.7**	**772.0**	**-106.6**
o/w Coal	271.8	241.3	-30.5
Total Imports	**11,199.2**	**11,286.1**	**86.9**
Energy imp.	3,169.7	2,328.1	-841.6
Non-energy imp.	8,029.5	8,958.0	928.5

Source: Pakistan Bureau of Statistics

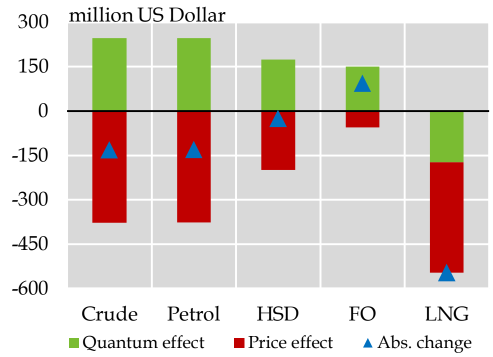
Energy imports pulled down by lower international crude prices amidst higher demand

The energy imports decreased 26.6 percent YoY to US$ 2.3 billion in Q1-FY21, mainly due to lower international crude prices in the wake of the pandemic (**Figure 5.24**). The fall

[28] Previously, the non-filers would be charged higher advance tax rates as compared to their filers on imports of products like remeltable steel, directly reduced iron, DAP, urea, cotton, pulses, coal, etc. Source: Income Tax Ordinances, amended up to 30-06-2019 and 30-06-2020.

[29] The FBR confiscated Rs 3,800 million worth of smuggled items in July 2020, which was 143 percent higher than July 2019 (fbr.gov.pk/pr/smuggled-items-worth-3800-million-confiscated/152389).

Quantum and Price Effects for Energy Imports in Q1-FY21 **Figure 5.24**



Source: Pakistan Bureau of Statistics

was much steeper than that of 16.2 percent during the same period last year.

Disaggregated data shows that in Q1-FY21, there was an increase in the quantum imports of major petroleum products, mainly petrol, HSD and furnace oil. On a broader level, the phased resumption of transportation services following the ease in nationwide lockdowns around June-July 2020, led to higher QoQ demand for these products during Q1-FY21. That said, there was considerable increase in YoY sales of these products as well. In case of petrol and HSD, the following four factors mainly triggered their demand.

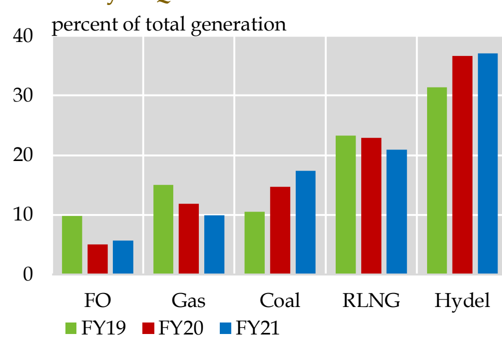
First, a higher number of vehicles were on the road, as reflected by higher sales of motor vehicles, particularly motorcycles and rickshaws.[30] Second, tighter border controls saw the informal HSD imports shift to formal channels.

Third, there was incremental number of intercity and interprovincial commuters and migrant workers that travelled by road, given that air travel was either fully or partially closed at least till late August. This substitution led to, on one hand, record low consumption of jet fuel, and, on the other hand, record high usage of petrol in Q1-FY21 (at least since FY14).[31]

Fourth, construction activities picked up in the quarter, as indicated by higher PSDP spending, especially in the housing and works sector.[32] This directly translated into higher transportation of construction-related materials (like cement, iron and steel) by heavy vehicles; which led to higher demand for HSD and petrol.

As for furnace oil, there was a trend reversal from the last few years, as its share in cumulative sales of petroleum products increased for the first time since Q1-FY17 (**Figure 5.25**). This transpired after the

Source-wise Generation of Electricity in Q1* **Figure 5.25**



*Excluding K-Electric

Source: National Electric Power Regulatory Authority

[30] Units of two- and three-wheelers sold rose by 22 percent year-on-year in Q1-FY21. (Source: PAMA)

[31] In case of HSD, sales of Jul-Aug FY21 were highest since FY17. (Source: OCAC)

[32] PSDP spending in the quarter rose 12.8 percent YoY to Rs 160 billion. Source: Pakistan Fiscal Operations, Ministry of Finance

government lifted the ban on import of furnace oil in order to supply more fuel to the power sector to curtail load-shedding in the country's southern region during the peak demand season.[33]

It is pertinent to note that this decision was taken in light of a major systemic constraint in the country's transmission network. According to NEPRA, due to limited transmission capacity (650 MW), the NTDC cannot transfer power to the country's southern region in case of sudden increase in demand there. In such a situation, the southern region is left with two options: either generate electricity using expensive FO, or purchase it from smaller FO-based power plants within the region, despite having cheaper coal-based or gas-based electricity from Port Qasim, Hub Power and other plants in the country available for "evacuation" should the need arise.[34]

As a result of this reshuffling in the energy mix, electricity generated using FO was 14.6 percent higher in Q1-FY21—rising for the first time in any quarter since Q4-FY17. It should be noted here that higher imports of FO had also prompted lower imports of cheaper fuel, LNG, in Q1-FY21 **(Table 5.5)**.[35]

Moreover, for all the reasons discussed above—pertaining to higher demand of major POL products—quantum imports of crude oil also rose 30 percent YoY to 2.4 million MT in Q1-FY21—the highest level in the last three years.

Having said that, lower unit values more than offset the rise in quantums of petroleum products and crude oil. During the quarter, international oil prices were still below the pre-pandemic levels. In fact, the price recovery slowed down as Covid cases resurged across the world. Additionally, the OPEC+ countries were also violating mutually agreed oil production cuts. In this backdrop, Arab Light oil prices dropped 31.7 percent YoY to US$ 43 per barrel during Q1-FY21; this helped significantly pull down the energy import bill. Finally, demand-driven lower LNG prices in the international market also considerably brought down the quarterly gas import bill **(Table 5.5)**.[36]

Non-energy imports more than offset impact of lower energy imports

Non-energy imports increased by 11.6 percent YoY to US$ 8.9 billion in the first quarter. There was a significant growth across wide sets of product categories, mainly mobile phones, palm oil, raw cotton, power generating machinery, and iron and steel (in that order). The increase in these segments more than offset the lower energy imports in value terms.

Food imports rose by 56.1 percent to US$ 1.7 billion—the highest level since at least Q1-FY06 (**Table 5.5**). This sharp rise came on account of following main reasons: shortage of local cotton seed oil (used in making ghee) due to poor cotton crop, resulting in higher imports of edible oils and seed (palm oil and soya bean seed/oil). This explains why palm

[33] Last year, there had not been much need to resume FO imports, as the local refineries had enough stocks available to dispose of.
[34] NEPRA (2020). *State of Industry Report 2020*. Islamabad: National Electric Power Regulatory Authority.
[35] Similarly, import of another cheaper fuel, coal, was lower in Jul-Sep FY21 than last year.
[36] International LNG Price Index was down 22 percent in the quarter. (Source: World Bank Pink Sheet)

oil imports, the largest imported food item, increased by 59.8 percent to US$ 579 million. It should be noted that rising international prices of palm oil also elevated its import bill.[37] Moreover, to facilitate the essential food imports, the government had also announced extension in the exemption of additional customs duty—of 2 percent—on edible oils and seeds under the PM's Covid Relief Program till September 30, 2020.[38]

Another factor driving food imports was the accelerated buying of some items (for instance, tea and pulses) in anticipation of higher winter demand amidst risk of second wave of Covid distorting food supplies and increasing prices. Finally, inflation in local wheat and sugar prices forced the government to allow the private sector to import these items to plug supply gaps **(Table 5.5)**. In case of wheat, regulatory duty was lifted altogether.[39]

Meanwhile, textile sector was another major source of increase in overall imports, whose imports rose 50.1 percent to US$ 676.8 million. Around three-fourth of this increase came from raw cotton only.[40] The primary reason was the shortfall in local cotton production, as evident by the lesser year-on-year cotton arrivals at the ginning factories.[41] In light of export orders for high value-added textile products, raw cotton had to be imported aplenty. Moreover, the government also had exempted additional customs duty on these items to facilitate their imports.[42]

Overall machinery imports rose 3.6 percent to US$ 2.1 billion in the quarter. The increase was led by power generating machinery and mobile phones. Rising 35.9 percent YoY, power generating machinery imports amounted to US$ 424 million. Among other things, progress of construction works on the

Rising Usage of Mobile Phones and E-Commerce in Pakistan **Table 5.6**

	Volumetric Share of Total			QoQ Growth (Value)		
	MPB[1]	E-Com[2]	Paper-Based	MPB[1]	E-Com[2]	Paper-Based
Q4-FY19	3.9	0.49	32.7			
Q1-FY20	4.5	0.65	33.9	-3	5.2	-11.8
Q2-FY20	4.9	0.8	33.6	31.1	25.9	4.4
Q3-FY20	6.1	0.81	31.6	22.2	-30.4	-7.1
Q4-FY20	10.0	0.81	27.5	33	32.4	-8.4
Q1-FY21[P]	10.3	1.1	27.6	46.1	26.6	21.3

[1]MPB: Mobile Phone Banking, [2]E-Com.: E-Commerce, P: Provisional

Source: State Bank of Pakistan

[37] Prices rose over stronger global demand (including from Pakistan) in the wake of easing of initial Covid restrictions, and lower year-on-year production in the key source market, Malaysia.

[38] Source: FBR SRO 572(I)/2020

[39] Source FBR SRO 633(I)/2020

[40] Raw cotton imports, at US$ 208 million, were the highest since Q1-FY08 (US$ 231 million).

[41] As of October 1, 2020, 1.9 million bales of cotton had arrived at the ginning factories, which were 35 percent lower than at the same point last year. (Source: Pakistan Cotton Ginners Association)

[42] Source: FBR SRO 572(I)/2020. It should be noted that the exemption had been available last year too, but only for a short period (from July 1, 2019 to August 22, 2019), and bore no impact on cotton imports.

projects under the CPEC had contributed towards their higher imports.[43]

Meanwhile, mobile phones imports rose 83.2 percent to US$ 493 million in the quarter. The increase could be traced to reduction of sales tax and advance tax on import of low-end mobile phones,[44] and increased usage of cell phones in day-to-day commercial transactions as well as in other activities like distance learning, initially prompted by social distancing (**Table 5.6**). Higher import of mobile phones was in line with the general trend in other EMs (like India) as well, which witnessed stronger than expected rebound in demand for these products in Q3-2020.[45]

Meanwhile, iron and steel imports increased 13.3 percent to US$ 860 million. Although the entire increase came mainly from iron and steel scrap, government's incentive offered through reduced customs duty on Hot Rolled Coil (an intermediary product) also saw quantum imports of finished products increase YoY.[46] This demand could be partly traced to higher consumption of reusable scrap as input in the steel industry, which makes billets, among other things, for the construction industry.[47] Finally, the transport group imports decreased, led mainly by the CKD kits, whose imports declined more sharply than last year, as the government imposed 7 percent additional customs duty on them **(Table 5.5)**.[48]

[43] Power sector received US$ 178 million in gross FDI in Q1-FY21, as compared to US$ 76.5 million last year.
[44] Sales tax on smart phones worth US$ 30-100 was reduced from Rs 1,320 to Rs 200 per set, whereas, advance tax on the same was lowered from Rs 730 to Rs 100 per set. Sources: Tax Laws (Second Amendment) Ordinance 2019 dated 28-12-2019 and Income Tax Ordinance as amended up to 30-06-2020
[45] Source: International Data Corporation's Q3-2020 Report, accessible at idc.com/getdoc.jsp?containerId=prUS46974920
[46] Duty on imports of HRC was brought down from 12.5 percent and 17.5 percent to 6 percent and 11 percent respectively for HS Codes 7208, and 7225 and 7226.
[47] Led by demand in the construction sector, billets produced in Q1-FY21 were 26 percent higher than last year.
[48] Source: FBR SRO 572(I)/2020