THE EXPRESS TRIBUNE

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17th November, 2020

FDI hits 10-month high

Inflows came in at $317.4m in October against $126.5m last year

Pakistan received 10-month high foreign investment of $317.4 million in different sectors of the economy in October 2020, particularly power production, 3G/4G mobile internet and oil and gas exploration, according to central bank data released on Monday.

A significant share of investment, estimated at over 70%, flowed into the country from all-season friend China. Most of the investment went to coal-fired power projects, the data suggested.

"Most of the other potential foreign investors are still engaged in fighting Covid-19 and may take some more time to stabilise their economies and then they will resume investment activities around the world, including Pakistan," Alpha Beta Core CEO Khurram Schehzad said while talking to The Express Tribune.

Besides, global investors continued to pull investment out of government securities like treasury bills and Pakistan Investment Bonds (PIBs) and companies listed at the Pakistan Stock Exchange (PSX).

Foreign direct investment (FDI) surged over 150% to $317.4 million in Pakistan in October 2020 compared to $126.5 million in the same month of previous year, the State Bank of Pakistan (SBP) reported.

Cumulatively, in first four months (Jul-Oct) of current fiscal year 2020-21, the foreign investment increased 9% to $733.1 million compared to $672 million in the same period of last year.

"China is the largest investor in Pakistan for different reasons, which include Beijing's strategic interest in the shape of China-Pakistan Economic Corridor (CPEC) and Pakistan being a highly potential but largely untapped market for foreign investment," Schehzad said.

In the meantime, China's economy has continued to recover from the Covid-19 impact. The world's second-biggest economy grew 4.9% in the Jul-Sept quarter compared to the same quarter of previous year.

The growth recovery in China allowed it to refocus on CPEC projects in Pakistan. On the other hand, the flow of FDI and remittances slowed down globally amid the Covid-19 pandemic, the analyst said.

Sector-wise FDI

The power sector received the largest investment of $239 million in October, which constituted around 75% of total investment of $317.4 million.

Investment in the power sector is largely made by Chinese firms. Moreover, coal-based power projects were the major beneficiaries of Chinese investment in Pakistan.

Taurus Securities' analyst Nabeel Dochki said Chinese investors were actively working on two 330-megawatt power plants to be run on local Thar coal, namely Thalnova Power and Thar Energy. Hubco is the local partner in CPEC power projects.

Besides, they are also working on extracting coal from Thar block-5 in partnership with Sindh Engro Coal Mining Company (SECMC). "Chinese investment flowed into two coal-fired power projects and in a coal extraction project (in October)," Dochki said.

In the first four months of FY21, a major net investment of $352 million went into the power sector, followed by the financial business sector, which received a net $119 million and oil and gas exploration sector, which attracted $83 million, according to AHL Research.

Country-wise FDI

China was the largest investor with net FDI of $332 million in first four months of FY21 compared with $64 million in the same period of previous year.

Malta emerged as the second-largest investor with net FDI of $74 million. The country had invested the same amount in the first four months of previous fiscal year.

Investment pullout

The central bank reported that foreign investors pulled out a total investment of $243.7 million from government debt securities in October 2020.

Cumulative outflow from government securities in the first four months stood at $598.7 million compared to inflow of $436.7 million in the same period of previous year.

Similarly, foreign investors withdrew $145.6 million from the Pakistan Stock Exchange (PSX) in Jul-Oct 2020 compared to $15.6 million in the same period of last year.

Schehzad pointed out that global investors continued to withdraw investment from the international debt and equity markets due to uncertainty associated with the pandemic.

"Investors may continue to pull investment out of debt securities, but are expected to pour capital into the stock market as Covid-19 vaccine is on course to become commercially available soon," he added.