###### Review of Pakistan’s Balance of Payments

###### July 2008 - June 2009



Pakistan’s balance of payments showed a deficit of $9,261 million in its current account balance during 2008-09 as against a deficit of $13,874 million during 2007-08. There has been a significant decline of $4,613 million in current account deficit contributed by a decrease of $2,343 million in trade deficit, mainly due to reduction of $3,650 million in import payments. A significant decline of $3,076 million is also observed in services deficit, however, an increase of $484 million is recorded in income deficit.

The capital and financial accounts showed a net inflow of $6,087 million reflecting a decrease of $2,165 million over the previous year. There has been a decrease of $2,309 million in overall deficit balance as compared with previous year. On quarterly basis, the overall balance registered deficits of $3,091 million, $1,663 million in first and second quarter while surpluses of $764 million and $934 million were witnessed in third and fourth quarter of FY09.



**Merchandise Trade**

During 2008-09 exports and imports of goods (general merchandise, repairs of goods and goods procured in ports by carriers) were $19,121 million and $31,747 million respectively while the same were $20,427 million and $35,397million in 2007-08.

During current financial year, the trade deficit narrowed by $2,343 million to reach $12,627 million as compared during the preceding financial

year. A decrease of $3,650 million or 10.3 per cent in imports contributed significantly in narrowing trade gap.

The general merchandise transactions reported through banks (export receipts) on a mixed f.o.b and c&f basis amounted to $17,887 million as compared to $18,483 million during last fiscal year. The general merchandise exports at a uniform f.o.b are arrived at by deducting freight amounting to $486 million,

adding timing adjustments (outstanding export bills) of -$318 million and other exports of $1,836 million not covered through banking channel in 2008-09.

Major commodities groups constituting 88 per cent of total export receipts during FY09 in descending order except others group are shown in table along with export receipts during FY08.

 The commodity-wise analysis of export receipts revealed that cotton, clothing & textile and the cereal group maintained their status of earning higher foreign exchange for the country in FY09 as they did in FY08.The former group fetched $8,876 million or 49.6 per cent of total export receipts during the current year and the later contributed an amount of $1,785 or 9.9 per cent of total export receipts to the country’s exchequer.

The country-wise comparison of export receipts by major countries during 2008-09 with 2007-08 is exhibited in Figure 1.

Country-wise pattern of export receipts showed that USA and UAE remained prominent trade partners in terms of exports receipts contributing to amounts of $3,540 million and $1,398 million respectively during FY09. However, Afghanistan replaced UK to become third important trade partner in terms of buying goods worth $976 million from Pakistan as UK ordered goods valued $964 million.



The general merchandise (imports) recorded a fall of $3,650 million or 10.3 per cent over the previous year. Of the total imports payments against general merchandise (f.o.b), $29,444 million or 93.7 per cent were reported by banks while those under foreign economic assistance, personal baggage & NRI, sale of duty free shops and others taken together amounted to $1,966 million or 6.3 per cent.

Major commodities groups constituting 89 per cent of total import payments reported by banks during 2008-09 in descending order except other groups are shown in table together with import payments during 2007-08.

Country-wise analysis showed that 41 per cent of total imports payments were made to a group of countries including Saudi Arabia, UAE, China and Kuwait in FY 09.The country-wise comparison of import payments of major countries including freight during 2008-09 with 2007-08 is exhibited in the Figure 2.

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**Services**

The deficit in services account decreased by $3,076 million from $6,457 million in 2007-08 to $ 3,381 million in 2008-09. The aggregate receipts of services transactions during 2008-09 increased by $517 million or 14.4 percent to $4,106 million from $3,589 million during 2007-08 and aggregate payments went down by $2,559 million or 25.5 per cent to $7,487 million from $10,046 million during 2007-08. The higher receipts were recorded under government services, transportation services and other business services. The higher payments were, however, made against transportation, other business and travel services.



**Income**

The income deficit of $4,407 million in 2008-09 increased by $484 million as compared to $ 3,923 million during 2007-08. The net outflow of direct investment income rose to $3,153 million during 2008-09 as compared with $3,065 million during 2007-08.Also net outflow of portfolio investment income and other investment income increased by $77 million & $323 million respectively during 2008-09 over 2007-08.

#### Current Transfers

The net inflow of current transfers amounted to $11,154 million during 2008-09 as compared with $11,476 million in the previous year showing a decrease of $322 million. The net decrease in general government transfers was $274 million during 2008-09 where the net inflows were $210 million in current year as compared to $484 million in 2007-08. There has been a significant decrease of $267 million in cash grants in FY09. Workers’ remittances, however, remained flamboyant with a 21 per cent growth rate to reach $7,811 million in FY09 as compared with $6,451 million in last fiscal year.

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**Capital & Financial Account**

The net inflow in capital & financial account during 2008-09 stood at $6,087 million as against $8,252 million during previous year. The net capital inflow amounted to $455 million in current period as against $121 million in 2007-08. The project grant increased by $316 million in 2008-09 as compared to previous year. The net inflow in financial account during 2008-09 stood at $5,632 million as against $8,131 million in the previous year.



The inflow of foreign loans/credits including short-term loans stood at $8,656 million as compared with $4,131 million last year. Of the total disbursement of long-term loans of $7,922 million, $841 million were for financing of various projects while $2,115 million were non-projects loans. The repayment of long-term loans/credits stood at $2,708 million during the current year as against $1,606 million in the previous year. The repayment of short-term loans/credits stood at $857 million during current year as against $141 million during the previous year.



 The interest paid on public and publicly guaranteed loans amounted to $711 million whereas interest on un-guaranteed private loans stood at $109 million. An amount of $52 million was paid to International Monetary Fund (IMF) as charges.

**Reserves and related items**

Foreign exchange reserves held by State Bank of Pakistan (SBP) including SDR decreased by $2,309 million during the year. The purchases/drawings of $3,050 million (SDR 2,068 million) and $852 million (SDR 264 million) were taken place in second and fourth quarter of fiscal year 09. On the other hand, the repurchases/repayments of $211 million (SDR138 million) were made to IMF during the year as against $173 million (SDR109 million) in last year.

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| **Summary Balance of** |
|  |
|  |  |  |
| **ITEM** | **2008** |  | **2009** |  | **Jul - Jun** |
| Jul – Sep | Oct - Dec |  | Jan - Mar | Apr – Jun |  | 2008-09 | 2007-08 |
|  |  |  |  |  |  |  |
| **Current Account Balance** | **-4,213** | **-3,625** | **-545** | **-878** | **-9,261** | **-13,874** |
| **Current Account Balance without off. transfers** | **-4,287** | **-3,637** | **-593** | **-907** | **-9,424** | **-14,302** |
|  Goods: Exports f.o.b | **5,711** | **4,379** | **4,231** | **4,800** | **19,121** | **20,427** |
|  Goods: Imports f.o.b | **10,229** | **8,077** | **6,276** | **7,165** | **31,747** | **35,397** |
|  Trade Balance | **-4,519** | **-3,698** | **-2,045** | **-2,365** | **-12,627** | **-14,970** |
|  Services: Credit | **1,133** | **941** | **777** | **1,255** | **4,106** | **3,589** |
|  Services: Debit | **2,392** | **2,021** | **1,389** | **1,685** | **7,487** | **10,046** |
|  Balance on Goods & Services | **-5,778** | **-4,778** | **-2,657** | **-2,795** | **-16,008** | **-21,427** |
|  Income: Credit | **210** | **298** | **185** | **181** | **874** | **1,613** |
|  Income: Debit | **1,335** | **1,558** | **1,152** | **1,236** | **5,281** | **5,536** |
|  Of which : Interest payments | **440** | **656** | **384** | **435** | **1,915** | **2,175** |
|  Profit & Dividend | **221** | **221** | **121** | **194** | **757** | **921** |
|  Balance on Gds & Serv. & Inc | **-6,903** | **-6,038** | **-3,624** | **-3,850** | **-20,415** | **-25,350** |
|  **Current Transfers.: Credit** | **2,708** | **2,457** | **3,110** | **2,981** | **11,256** | **11,618** |
|  Of which: |  |  |  |  |  |  |
|  Workers' Remittances | **1,879** | **1,761** | **2,018** | **2,153** | **7,811** | **6,451** |
|  FCAs Residents | **-27** | **-185** | **-7** | **-52** | **-271** | **444** |
|  Saudi Oil Facility | **0** | **0** | **0** | **0** | **0** | **0** |
|  Current Transfers :Debit | **18** | **44** | **31** | **9** | **102** | **142** |
| **Capital Account,**  | **28** | **44** | **66** | **317** | **455** | **121** |
|  Capital Account, : Credit | **28** | **48** | **66** | **318** | **460** | **128** |
|  Project Grants | **24** | **23** | **64** | **316** | **427** | **111** |
|  Debt Forgiveness | **0** | **0** | **0** | **0** | **0** | **0** |
|  Others | **4** | **25** | **2** | **2** | **33** | **17** |
|  Capital Account... Debit | **0** | **4** | **0** | **1** | **5** | **7** |
| **Financial Account** | **1,331** | **1,692** | **1,260** | **1,349** | **5,632** | **8,131** |
|  Direct Investment Abroad | **-6** | **-2** | **-3** | **-14** | **-25** | **-75** |
|  Dir. Invest. In Rep. Econ. | **1,117** | **1,234** | **691** | **678** | **3,720** | **5,410** |
|  Portfolio Investment Assets | **-10** | **-15** | **8** | **-24** | **-41** | **-5** |
|  Equity Securities | **-10** | **-15** | **8** | **-24** | **-41** | **-5** |
|  Debt Securities | **0** | **0** | **0** | **0** | **0** | **0** |
|  Portfolio Investment Liab. | **-174** | **-4** | **-758** | **-96** | **-1,032** | **37** |
|  Equity Securities | **-171** | **7** | **-254** | **-93** | **-511** | **20** |
|  Debt Securities | **-3** | **-11** | **-504** | **-3** | **-521** | **17** |
|  Financial Derivatives Assets | **0** | **0** | **0** | **0** | **0** | **0** |
|  |  |  |  |  |  |  |

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| **Payments –Overall** |
|  |
|  |  | (Million US Dollars) |
| **ITEM** | **2008** |  | **2009** |  | **Jul – Jun** |
| Jul – Sep | Oct - Dec Dec |  | Jan-Mar | Apr – Jun |  | 2008-09 | 2007-08 |
|  |  |  |  |  |  |  |
|  Financial Derivatives Liabilities | **0** | **0** | **0** | **0** | **0** | **0** |
|  Other Investment Assets | **448** | **-30** | **174** | **-32** | **560** | **32** |
|  Monetary Authorities | **0** | **0** | **0** | **0** | **0** | **0** |
|  General Government | **-1** | **3** | **3** | **3** | **8** | **5** |
|  Banks | **457** | **-224** | **93** | **20** | **346** | **525** |
|  Other Sector | **-8** | **191** | **78** | **-55** | **206** | **-498** |
|  Other Investment Liab. | **-44** | **509** | **1,148** | **837** | **2,450** | **2,732** |
|  Monetary Authorities | **0** | **0** | **-1** | **0** | **-1** | **490** |
|  General Government | **5** | **196** | **1,087** | **660** | **1,948** | **1,761** |
| Disbursements | **715** | **1,011** | **883** | **1,081** | **3,690** | **3,054** |
|  Long-term | **715** | **410** | **795** | **1,036** | **2,956** | **2,354** |
|  Project loans | **222** | **187** | **162** | **270** | **841** | **1,250** |
|  Food loans | **0** | **0** | **0** | **0** | **0** | **0** |
|  Program loans | **493** | **223** | **633** | **766** | **2,115** | **1,104** |
|  Short-term | **0** | **601** | **88** | **45** | **734** | **700** |
|  Commercial loans | **0** | **50** | **0** | **0** | **50** | **0** |
|  IDB loans | **0** | **551** | **88** | **45** | **684** | **700** |
| Amortization | **687** | **815** | **322** | **422** | **2,246** | **1,272** |
|  Long-term | **525** | **273** | **269** | **322** | **1,389** | **1,131** |
|  Short-term | **162** | **542** | **53** | **100** | **857** | **141** |
| Other Liabilities | **-23** | **0** | **526** | **1** | **504** | **-21** |
|  Banks | **244** | **63** | **-110** | **94** | **291** | **66** |
|  Other Sector | **-293** | **250** | **172** | **83** | **212** | **415** |
| Disbursements | **145** | **409** | **313** | **197** | **1,064** | **1,027** |
| Amortization | **112** | **103** | **131** | **116** | **462** | **334** |
| Other Liabilities | **-326** | **-56** | **-10** | **2** | **-390** | **-278** |
| Net Errors and Omissions | **-238** | **226** | **-17** | **146** | **118** | **257** |
|  **Overall Balance** | **-3,091** | **-1,663** | **764** | **934** | **-3,056** | **-5,365** |
| Reserves and Related Items | **3,091** | **1,663** | **-764** | **-934** | **3,056** | **5,365** |
|  Reserve Assets | **3,227** | **-1,429** | **-730** | **-1,703** | **-635** | **5,538** |
|  Use of Fund Credit and Loans | **-36** | **2,992** | **-34** | **769** | **3,691** | **-173** |
| Purchases /  | **0** | **3,050** | **0** | **852** | **3,902** | **0** |
| Repurchases | **36** | **58** | **34** | **83** | **211** | **173** |
| **Exceptional Financing** | **-100** | **100** | **0** | **0** | **0** | **0** |
|  |  |  |  |  |  |  |
| **SBP Reserves** | **6,286** | **7,833** | **8,453** | **10,257** | **10,257** | **9,539** |
|  |  |  |  |  |  |  |