

## **Acknowledgement**

The Pakistan's Balance of Payments provides comprehensive accounts of all foreign exchange transactions taking place during a particular accounting period. The data is collected from a number of sources including banks, government ministries, Pakistani missions abroad, domestic and foreign shipping and airline companies, various departments / divisions of State Bank of Pakistan and other relevant corners. The team is indebted to all concerned personnel in these organizations for providing valuable and timely information for use in the compilation of balance of payments statistics. The team is also thankful to their colleagues in other divisions / departments of the State Bank of Pakistan for their contributions towards preparation of this publication. Finally, thanks are due to members of BOP Standing Committee for reviewing the data and for their comments which helped in finalization of the estimates.

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## INTRODUCTION

The **Balance of Payments** (BOP) is a statistical statement for a given period showing transactions of residents in the reporting economy with the non-residents. This publication provides estimates of Pakistan's Balance of Payments for the financial year July 2011- June 2012 prepared in lines with the methodology detailed in the 5th edition of Balance of Payments Manual of IMF (BPM5).

2. The main categories of BOP are (a) Current Account (CA) (b) Capital Account, (c) Financial Account, and (d) Errors and Omissions. The CA comprises of balance of trade in goods & services, income account and current transfers. Capital account relates to acquisition / disposal of non-produced non-financial assets and capital transfers. Financial account is classified into Direct Investment, Portfolio Investment, Financial Derivatives, Other Investments and Reserve Assets. Other Investment comprises of trade credits, loans, currency & deposits and other assets /liabilities. Monetary gold, special drawing rights (SDRs) and foreign exchange available with the economy are part of the reserve assets. The component of Errors and Omissions is the balancing item which shows the statistical discrepancies arising due to time lag, valuation and recording of individual item.

3. Balance of payments transactions are recorded on double-entry book keeping where each credit-entry is exactly balanced by an offsetting debit-entry and vice versa. A credit-entry records the provision of real resources such as exports of goods and services, a decrease in holding of foreign financial assets or an increase in foreign financial liabilities. Conversely, a debit-entry records imports of goods and services, an increase in holding of foreign financial assets or a decrease in foreign financial liabilities. When commodities are received or given away rather than for value or exchange, the recording is one sided. The offsetting entry is referred to as transfers. The net positions of accounts in BOP statement are arrived at by deducting debits from credits.

4. Conceptually, the sum of all credit entries is equal to sum of all debit entries. As the data for compilation of BOP estimates are often taken independently from various sources, the process generates net credit or net debit and recognized in the balance of payments statement as "errors and omissions". In BOP statement, it would appear as a separate entry of equal amount with opposite sign.

5. The balance of payments statement is based on data collected from various sources. Major portion of data is collected and compiled through international transactions reporting system (ITRS) from State Bank of Pakistan and authorized dealers of banks dealing in foreign exchange. The ITRS is supplemented by the annual survey of foreign investment in Pakistan and abroad and status report on disbursements of foreign economic assistance, authorization advices for repayment of foreign loans and credits, receipts & payments of foreign exchange transactions by Exchange Companies. The coverage also includes data relating to Pakistani air and shipping companies, foreign air and shipping companies, Pakistan diplomatic missions abroad, resident enterprises having accounts abroad, dry ports, duty free shops, land borne trade adjustment with Afghanistan, EPZs etc.

6. The merchandise transactions reported by banks are on a mixed fob and cif basis. For exports, the freight collected by foreign and Pakistani shipping and air companies is subtracted from the export proceeds reported by banking channel to bring it on fob basis. Data on outstanding export bills, land borne trade with Afghanistan , Pakistani enterprises transaction from the account abroad and export of samples etc are also included to arrive at total exports .

8. The figures of merchandise trade used for compilation of BOP are based on exchange records which are not reconcilable with those compiled using customs records. The reasons of differences are the valuation, timing and coverage of transactions. Customs record trade figures generally on cif basis for imports and fob basis for exports while balance of payments data are adjusted on fob basis. The 'timing' of transactions is of considerable importance. Customs record trade at ports at the time of exit or entry of goods. Exchange records recognize trade on actual realization of proceeds and also include advance payments, payments through bills of exchange of varying maturity, payments by open book accounts or settlements of deferred payments basis. These leads and lags cause difference between the two sets of figures. The gift parcels and passengers' dutiable goods are included, as a rule, by customs but not by exchange record. On the contrary, customs figures are exclusive of defense stores but exchange records include them. Similarly, following transactions are excluded from the customs records but included in exchange records of banking channel:

- i) Fish caught in high seas, sold in the sea to non-residents and foreign exchange brought through the banks
- ii) Purchases made by diplomatic missions abroad for their own use

Moreover, the quarterly flows of land born trade with Afghanistan collected from Pakistan Bureau of Statistics based on customs records are given below:-

(Million US \$)

| Afghanistan | 2011      |          | 2012      |          | 2011-12 | 2010-11 |
|-------------|-----------|----------|-----------|----------|---------|---------|
|             | Jul - Sep | Oct -Dec | Jan - Mar | Apr -Jun |         |         |
| Exports     | 107       | 196      | 362       | 256      | 921     | 150     |
| Imports     | 43        | 46       | 41        | 39       | 169     | 143     |

## EXPLANATORY NOTES ON COMPONENT ITEMS

The Balance of Payments statement comprises four major categories viz., (1) Current Account, (2) Capital (3) Financial Account, and (4) Errors and Omissions. These accounts have been explained in the following paragraphs.

### 1. CURRENT ACCOUNT

#### A. Goods and Services

##### a. Goods

Recording of goods implies provision or acquisition of real resources of an economy to and from the rest of the world. Goods covers general merchandise, goods for processing, repairs of goods, goods procured in ports by carriers and non-monetary gold.

**General merchandise:** The exports and imports of general merchandise are reported under this item after adjusting from a mixed c&f and fob to a uniform fob basis. The imports of general merchandise include imports financed by grants, loans, suppliers and other credits. Estimates of imports of capital goods supplied to Pakistani branches or subsidiaries from their parent companies abroad based on annual surveys of foreign investment are also covered in this item. Purchases of commodities by Pakistan's Diplomatic Missions abroad, imports under Personal Baggage, Non-repatriable Investment (NRI) scheme and sales of duty free shops are included. Other export/import as detailed in the introduction are also included while compiling general merchandise.

**Goods for processing:** Goods shipped abroad for processing and subsequently returned home in a new form without change of ownership are recorded under this head and vice versa.

**Repair on goods:** This includes the value of repairs with the provision of materials for major refits of ships, aircraft and other carriers.

**Goods procured in ports by carriers:** This refers to those goods, such as fuels, provisions, stores and supplies for carriers usually purchased for commercial use in ships, aircraft and other carriers

**Non-monetary gold:** This covers exports and imports of gold not held in as reserve assets (monetary gold) by the monetary authority. Non-monetary gold is held as a store of value and treated like any other commodity.

##### b. Services

Recording of services implies provision or acquisition of services of an economy to and from the rest of the world. The credit entries show services provided to and debit entries express acquisition of services from the rest of the world. Services include transportation, travel, communication, construction, insurance, financial, computer and information, royalties and license fee, other business services, personal, cultural and recreational and government services, n.i.e.

1. **Transportation** covers all transportation (Sea, Air, Rail, Road and Others) services provided by residents to non-residents and vice-versa and involves the carriage of passengers, movement of goods (freight), charter of carriers with crew and other related supporting and auxiliary services. Activities excluded from transportation are insurance, repairs of transportation equipment and goods procured in ports by carriers. The debit entry under transportation includes freight of 98% of CIF coefficient of 6 % of imports (mixed c&f, fob basis), the amount calculated for freight on imports financed by foreign loans/credits/grants at the flat rate of 9%.
2. **Travel** represents receipts and payments under tourism and other travel for purposes such as business and personal. **Business travelers** are usually commercial travelers, government employees on official travel and employees' of international organizations on official missions. Personal travel covers travelers going abroad for religious, educational, health purposes, visits to relatives and friends, participation in sports etc.

3. **Communication services** cover receipts and payments for telephone, telegraph, facsimile and telex including broadcasting and electronic mail services, postal and courier services.
4. **Construction services** covers receipts for work abroad on construction projects and installation by personnel of resident enterprises and payments of salary and allowances to the personnel of non-resident enterprises engaged in construction project
5. **Insurance services:** Credit entries cover net premium on direct insurance and reinsurance assumed by resident insurance companies. Debit entries also cover premium on merchandise insurance on imports, which are not available separately but are included in freight. An estimated 2 % of CIF coefficient of 6 % of imports payment is treated as insurance.
6. **Financial Services:** Receipts by banks operating in Pakistan from their offices and correspondents abroad and payments by banks to their branches and correspondents abroad on account of commission, cable charges including fees associated with letter of credit, bankers acceptances, lines of credit, financial leasing and other fees etc. are included under financial services.
7. **Computer and Information Services:** It covers receipts and payments for computer and news related services including data processing, hardware consultancy, software implementation, export of computer software, maintenance and repairs of computers and news agency services.
8. **Royalties and License Fee** The item covers receipts and payments associated with the authorized use of intangible non-produced non-financial assets and proprietary rights, such as patents, copy rights, trademarks, industrial processes etc. and the use through licensing agreement of produced originals or prototypes such as manuscripts and films.
9. **Other Business Services:** Receipts and payments for merchant and other trade related services, operational leasing and miscellaneous business, professional and technical services are covered under this head.
10. **Entertainment, Cultural and Recreational Services:** It covers receipts and payments for audio visual and related services and other cultural and recreational services.
11. **Government Services n.i.e,** cover all services such as logistics support, earnings/expenditures of embassies and consulates etc. The data is collected through survey of Pak diplomatic missions abroad, exchange records of banks, transactions routed through SBP and MOF etc.

## B. Income

The Income component of the Balance of Payments is restricted to income earned from the provision of two factors of production viz., labor and capital. Accordingly, income earned from the labor is called compensation of employees while income earned from the capital is called investment income.

**1. Compensation of employees:** Wages, salaries and other benefits received by short term workers (less than one year stay) from nonresident employers are treated as credit entries while the reverse are debit entries under this head.

### 2. Investment income

**2.1. Direct investment income:** The credit entry covers profit receipts on equity participation and interest receipts on debt by Pakistani direct investors from abroad and debit entry records the profit and interest paid to the foreign direct investors by the reporting economy. Data on direct investment income are derived from banking records and data on reinvested earnings and undistributed branch profits are estimated from annual survey of foreign investment in Pakistan and the financial statements of companies.

**2.2. Portfolio investment income:** The credit entry covers dividend accrued on equity securities (shares) and interest received from holding of foreign bonds, notes, and money market instruments, and the debit entry includes the payments on account of the same instruments to the foreign investors. Data on portfolio

investment income are collected from the exchange records provided by authorized dealers and State Bank of Pakistan.

**2.3. Other Investment income:** The credit entry under this head includes mainly interest and discount received by State Bank of Pakistan from investment accounts, treasury bills and receipts of interest or discount on all other resident claims on non-resident other than those on direct and portfolio investment. The debit entry mainly represents interest payments of Medium & Long-term Loans (MLT), other short-term loans, payments of IMF charges and payments of interest/discount on all other liabilities to nonresidents other than those on direct and portfolio investment.

## C. Current Transfers

Official grants in kind for immediate consumption and technical assistance are included in the current transfers. It also includes workers' remittances, gifts, donations etc.

**1. General government:** The credit entries for current transfers of the general government (i.e. government official sectors) include grants in the form of food and commodity including Afghan refugees and technical assistance received from donor countries and international organizations. Debit entries represent payments on the same accounts.

**2. Other sectors:** Credit entries mainly cover receipt on account of workers' remittances, withdrawal from residents foreign currency accounts, donations provided by foreign private organizations, contra entries for imports under personal baggage, NRI (Non-repatriable Investment) scheme, sales of duty free shops and receipts of exchange companies. Payments on the same accounts constitute debit entries.

## 2. Capital Account

Capital account consists of two categories (i) capital transfers and (ii) acquisition or disposal of non-produced, non-financial assets.

**1. Capital transfer:** Capital transfer consists of transfer of ownership of fixed assets or forgiveness of financial liabilities between residents and nonresidents without quid pro quo. It includes mainly official project grants data, which are collected from the Economic Affairs Division. Capital transfers are classified into two sectors (i) general government and (ii) other sectors.

**2. Acquisition or disposal of non-produced, non-financial assets:** This consists of transactions associated with tangible assets that may be used or necessary for production of goods & services but are not actually produced e.g. land and subsoil assets & transactions associated with non-produced intangible assets e.g., patents, copyrights, trademarks and franchises.

## 3. Financial Account:

Financial account records all transactions associated with changes of ownership in foreign financial assets and liabilities. The financial account is, firstly, classified by five functional types of investment: 1) Direct investment, 2) Portfolio investment, 3) Financial derivatives 4) Other investment and 5) Reserve assets; secondly, by direction of investment (assets and liabilities) and thirdly, by instrument of investment (equity, bonds and notes, loans etc.)

**1. Direct investment:** This item covers remittances received from foreign direct investors (having 10% or more shares in equity) in enterprises in the reporting economy and remittances made abroad by Pakistani direct investors for equity participation. The cash flow data on foreign direct investment (FDI) transactions are collected through banks while data on reinvested earnings, undistributed branch profit, and capital equipment brought in through annual foreign investment survey.

**2. Portfolio investment:** Portfolio investment covers remittances received from (credit) and paid to (debit) on account of equity securities (share) and debt securities in the form of bonds and notes, money market instrument. Information on portfolio investment is collected through banks.

**3. Financial derivatives:** A financial derivative is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity commodity price risks, credit risk, and so on) can be traded in their own right in financial markets. There is no information to record against this item at present.

**4. Other investment:** Other investment includes all financial transactions that are not covered in the categories for direct investment, portfolio investment or reserve assets. Under other investment, the instrument classified under assets and liabilities, comprises trade credits, loans (including use of Fund credit and loans from the Fund), currency and deposits and other assets and liabilities.

**5. Reserve assets:** Data on international reserves comprise monetary gold, SDRs, reserve position in the Fund and foreign exchange, which are collected from the internal records of the State Bank of Pakistan, and IMF.

### **3. Errors & Omissions**

The entries under this head relate mainly to leads and lags in reporting of transactions. It is of a balancing entry and is needed to offset the overstated or understated components.

Notes: - (i) The transactions have been converted at the average midpoint rates of exchange prevailing during the respective periods.

(ii) As the figures are rounded separately, the sub-totals and totals may reflect minor differences.

## REGIONS/COUNTRIES AND TERRITORIES

The regional classification of Pakistan's balance of payments has been revised with effect from the year 2003-04 to meet the present requirements. The balance of payments statements compiled for inclusion in this publication pertain to fifteen countries viz., Saudi Arabia, U.A.E., Iran, Turkey, U.K., Germany, France, Italy, Netherlands, U.S.A. Canada, Japan, People's Republic of China, Hong Kong and Russian Federation.

The statements have also been compiled for the following country groups viz., Organization of Islamic Conference (O.I.C.), Middle East, European Union (EU), Other European Countries , International Institutions and other countries.

The aggregates of regional balance of payments data will not tally with those of the overall due to overlapping of some countries among the regions. The composition of country-groups may change from time to time. The country-groups comprise as follows:-

### **(i) Organization of Islamic Conference:**

Afghanistan, Algeria, Azerbaijan, Albania, Bahrain, Bangladesh, Benin, Brunei, Cameroon, Chad, Comoros Islands, Cot D'Ivoire, Djibouti, Egypt, Guyana, Guinea, Gabon, Gambia, Bissau, Indonesia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Libya, Malaysia, Maldives, Mali, Mauritania, Morocco, Mozambique, Niger, Nigeria, Oman, Qatar, Saudi Arabia, Senegal, Sierra Leone, Somalia, Sudan, Suriname ,Syria, Tajikistan , Tunisia, Turkmenistan, Turkey, Togo, Uganda, United Arab Emirates, Burkina-Faso(Upper Volta) , Uzbekistan , Yemen Arab Republic.

### **(ii) Middle East:**

Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Turkey, United Arab Emirates, Yemen Arab Republic.

### **(iii) European Union:**

Austria Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Luxembourg, Lithuania, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom,

### **(iv) Other European Countries:**

Albania, Andorra, Armenia, Belarus, Bosnia, Croatia, Georgia, Iceland, Liechtenstein, Moldova, Monaco, Montenegro, Norway, Russian Federation, Serbia, San Marino, Switzerland, Vatican City Ukraine.



**(v) International Institutions:**

ADB (Asian Development Bank), BIS (Bank for International Settlements), FAO (Food and Agriculture Organization), IBRD (International Bank for Reconstruction and Development), ICAO (International Civil Aviation Organization), IDA (International Development Association), IDB (Islamic Development Bank), IFAD (International Fund for Agricultural Development), IFC (International Finance Corporation), ILO (International Labor Organization), IMF (International Monetary Fund), OPEC (Organization of Petroleum Exporting Countries), UN (United Nations), UNDP (United Nations Development Program), UNDRC (United Nations Disaster Relief Coordinator), UNESCO (United Nations Educational Scientific and Cultural Organization), UNICEF (United Nations Infant Children's Emergency Fund), UNHCR (United Nations High Commissioner for Refugees), UNFPA (United Nations Fund for Population Activities), WFP (World Food Program), WHO (World Health Organization) and others not stated above.

**(vi) Other Countries:**

African Central Republic, Angola, Antigua & Barbuda, Argentina, Australia, Bahamas, Barbados, Belize, Bermuda, Bhutan, Bolivia, Botswana, Brazil, Burundi, Cape Verde Islands, Chile, Colombia, Congo, Cook Islands, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Equatorial Guinea, Ethiopia, Faeroe Islands, Falkland Islands, Fiji, French Guiana, French Polynesia, Ghana, Gibraltar, Greenland, Grenada, Guadeloupe, Guam, Guatemala, Haiti, Honduras, Iceland, India, Ivory Coast, Jamaica, Kampuchea-Democratic, Kenya, Korea-Democratic People's Republic, Korea-Republic of, Laos, Leeward Island, Lesotho, Liberia, Macao, Madagascar, Malawi, Mozambique, Martinique, Myanmar, Mauritius, Mexico, Mongolian People's Republic, Namibia, Nepal, Netherlands Antilles, New Caledonia, New Zealand, Nicaragua, Norfolk Island, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Reunion Islands, Rwanda, Seychelles, Singapore, Solomon Islands, Sri Lanka, St. Helena, Swaziland, Tanzania, Thailand, Trieste, Trinidad and Tobago, Uruguay, Venezuela, Viet Nam, Virgin Islands, Western Samoa, Zaire, Zambia, Zimbabwe and others not stated above. Also include those transactions that are not specified by country.