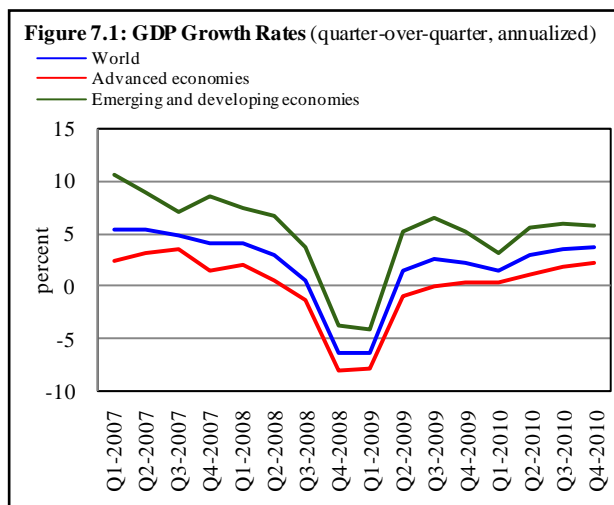


# 7 Balance of Payment

## 7.1 Global Scenario

Emerging from the worst economic recession of modern history, the global economy appears to be on the path to a slow recovery. Earlier prospects of a robust recovery were hit by adverse developments in the developed economies, but so far healthy growth in the emerging economies seems likely to propel world economic growth to 4.6 percent in 2010. This growth is, however, expected to decline to 4.3 percent in 2011 on account of inevitable cutbacks in stimulus packages in the developed economies, fallout of the recent debt crisis in Europe and weakness in the financial system in the developed countries (see **Figure 7.1**).



The prospects of global recovery by the end of 2009 were bright due to upsurge in industrial production, rise in employment rates and pick up in trade and investment activities. These positive developments were essentially the outcome of countercyclical monetary and fiscal policies adopted by almost all major economies of the world. However, while expansionary fiscal and monetary policies stimulated growth, they also led to ballooning of debt levels in large number of economies. The problem has been particularly acute in the Euro zone where some counties were at the brink of default and had to be bailed out. In the US too, after an initial rise in the consumer spending and production, demand is weakening. It is also feared that the main driver of the global growth in 2010, the Chinese economy could lose steam as the stimulus package works its way out of the system. Thus prospect of growth for 2011 have been revised downwards.

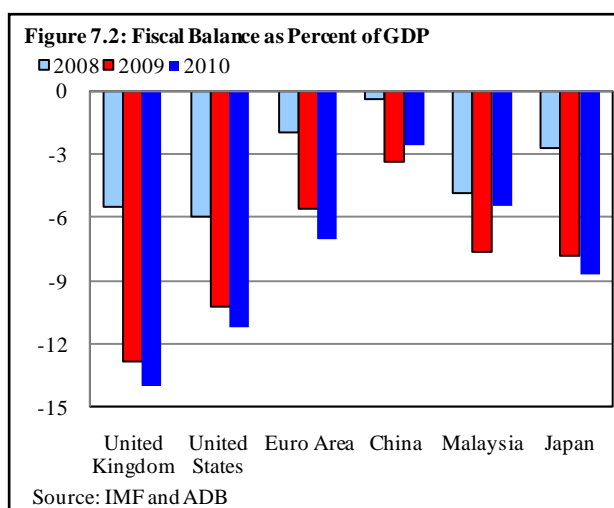
**Table 7.1: Major Indicators of World Economies**

	GDP growth		Inflation rate		CAB (percent of GDP)	
	2009	2010	2009	2010	2009	2010
<b>World</b>	<b>-0.6</b>	<b>4.6</b>				
<b>Developed countries</b>	<b>-3.2</b>	<b>2.3</b>	<b>0.1</b>	<b>1.5</b>	<b>-0.4</b>	<b>-0.4</b>
USA	-2.4	3.1	-0.3	2.1	-2.9	-3.3
Euro Area	-4.1	1.0	0.3	1.1	-0.4	0.0
Japan	-5.2	1.9	-1.4	-1.4	2.8	2.8
UK	-4.9	1.3	2.2	2.7	-1.3	-1.7
<b>Emerging markets</b>	<b>2.4</b>	<b>6.3</b>				
China	8.7	10.0	-0.7	3.1	5.8	6.2
Russia	-7.9	4.0	11.7	7.0	3.9	5.1
India	5.7	8.8	10.9	13.2	-2.1	-2.2
Pakistan	2.0	3.0	20.8	11.5	-5.6	-3.8
Bangladesh	5.4	5.4	6.1	7.4	2.9	2.1
Philippines	0.9	3.6	3.2	5.0	5.3	3.5
Indonesia	4.5	6.0	4.8	4.7	2.0	1.4

Source: World Economic Outlook, April 2010 & World Economic Outlook Update, July 2010

Although the financial crisis hit both the developed and emerging economies, the latter proved more resilient and recovered more quickly (see **Table 7.1**). Within emerging economies, the recovery was led by Asia<sup>1</sup>. Further, countries with strong macroeconomic fundamentals were able to counter the crisis much better. However, the sustainability of this ongoing recovery is dependent on continuation of macroeconomic policies that support growth and employment. This is extremely important to boost and sustain the consumer confidence that would ultimately help in improving the prospects of economic recovery in the medium term.

The developed economies are facing a dilemma. If they continue to follow countercyclical policies; their fiscal deficits are likely to swell to unsustainable levels and if they roll it back they could stifle nascent economic recovery that is underway. In number of economies public debt has already reached unmanageable proportions due to which they are compelled to explore feasible exit strategies that would invariably involve some form of fiscal consolidation and restoration of financial discipline (see **Figure 7.2**). A gradual reduction in stimulus packages seems to be one possibility under the circumstances.



Emerging economies, on the other hand are facing a different sort of challenge. In these economies the stimulus packages has led to overheating of these economies thereby generating inflationary pressures. A possible exit strategy for such economies would be monetary tightening but its effectiveness is in question as higher interest rates could attract capital inflows causing exchange rate to appreciate in these countries thus hurting their exports.

#### Box7.1: Global Recovery a Regional Perspective

According to the world economic outlook, developed economies are expected to grow at 2.5 percent in 2010. However, the growth during second half of 2010 is expected to be lower on account of financial turbulence. For 2011, output growth in advanced economies is expected to remain broadly unchanged. High levels of public debt, unemployment and constrained bank lending are the challenges that these economies would have to face. US economy is losing its steam in spite of being well short of its capacity and helped by unprecedented support from monetary and fiscal policies.

Economic activity in emerging Asia has been sustained by robust exports growth and strong private domestic demand. However, output growth is expected to decelerate in 2011 in these economies too. Within the region the drivers of growth will be diversified. In China, given the strong rebound in exports and resilient domestic demand so far this year, the economy is now forecast to grow by 10.5 percent in 2010, before slowing to about 9.5 percent in 2011, when further measures are taken to slow credit growth and maintain financial stability. In India, growth is expected to accelerate to about 9.5 percent in 2010, as robust corporate profits and favorable financing conditions fuel investment, and then to settle to 8.5 percent in 2011. Both Newly Industrialized Asian Economies (NIEs) and ASEAN economies are expected to grow by about 6.5 percent in 2010, as a result of surging exports and private domestic demand, before moderating to 4.7 percent and 5.5 percent, respectively, in 2011.

Downside risks to world economic outlook have intensified during H2-CY10 and for CY11 following the financial turbulence in the euro area. Asia has only limited direct financial linkages to the most vulnerable euro area economies, but a stall in the European recovery that spills over to global growth would affect Asia through both trade and financial channels. Many Asian economies (especially NIEs and the ASEAN economies) are highly dependent on external demand, and their export exposure to Europe is at least as large as their export exposure to the United States. In the near term, the main risk is an escalation of financial stress and contagion, prompted by rising concern over sovereign risk. This could lead to additional

<sup>1</sup> Regional Economic Outlook (April 2010), IMF.

increases in funding costs and weaker bank balance sheets and hence to tighter lending conditions, declining business and consumer confidence, and abrupt changes in relative exchange rates. Given trade and financial linkages, the ultimate effect could be substantially lower global demand. However, in the event of external demand shocks, the large domestic demand bases in some of the Asian economies that contribute substantially to the region's growth (China, India, and Indonesia) could provide a cushion to growth.

Source: World Economic Outlook Update July 2010.

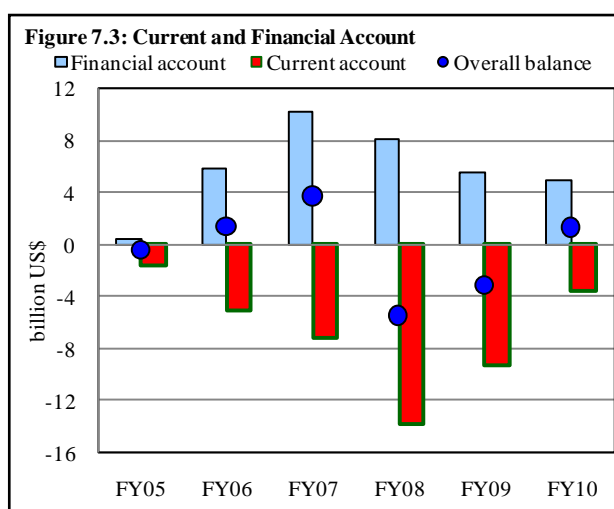
## 7.2 Pakistan's External Account

The current account deficit as a percent of GDP witnessed remarkable improvement during FY10 declining to 2.0 percent of GDP from 5.7 percent in the previous year. This contraction in the current account deficit was instrumental in achieving overall external account surplus of US\$ 1.2 billion after a gap of two years. A cause of concern was however, the deterioration in financial account surplus in FY10 compared to the previous year (see **Figure 7.3**).

Unlike FY09, when current account deficit contracted mainly due to fall in import, contraction in current account deficit in FY10 was broad based, and both, trade and invisible accounts showed significant improvement. The Decline in the financial account surplus, largely resulted from the fall in foreign direct investment as outflows from the portfolio investment during FY10 were negligible, even after payment of maturing Sukuk Bonds.

Most of the YoY improvement in external account occurred in the first five months of FY10. Both, current and financial accounts recorded substantial YoY improvement during this period. Current account improved due to large contraction in the trade deficit as imports contracted much faster than the simultaneous decline in exports. The improvement in the trade account was supported by rise in the invisible account surplus that benefited from the record workers' remittances. Financial account, on the other hand gained from the inflows from IMF. In the ensuing months, however, both the current and the financial account deteriorated. As a result full year improvement in the external account was not as impressive as it was in the initial five months (see **Table 7.2**).

Nevertheless, as a result of improved external sector performance, foreign exchange reserves reached at record level of US\$ 16.9 billion as of end June 2010 from US\$12.8 billion last year. During the year the pressures on the rupee were relatively lower due to which depreciation of the domestic currency was also limited to 4.7 percent.



**Table 7.2: External Account Summary**

million US Dollar

	Jul-Nov		Jul-Jun	
	FY09	FY10	FY09	FY10
<b>A. C/A balance</b>	<b>-7245</b>	<b>-1433</b>	<b>-9261</b>	<b>-3495</b>
i) Trade balance	-7054	-4690	-12627	-11423
Exports	8652	7678	19121	19632
YoY growth (%)	11.2	-11.3	-6.4	2.7
Imports	15705	12368	31747	31055
YoY growth (%)	25.6	-21.2	-10.3	-2.2
ii) Invisible balance	-191	3257	3366	7928
Remittances	2966	3832	7811	8906
Logistic support	365	0	912	1294
FCA – residents	-352	231	-271	629
<b>B. Fin. and capital account</b>	<b>1843</b>	<b>2638</b>	<b>6087</b>	<b>5185</b>
Direct investment	1621	779	3720	2201
Portfolio investment	-182	302	-1073	-64
Foreign loans	1117	1669	4031	3822
Amortization	893	687	1851	1804
<b>C. Errors &amp; omissions (net)</b>	<b>-229</b>	<b>-262</b>	<b>118</b>	<b>-425</b>
<b>D. Overall balance</b>	<b>-5630</b>	<b>943</b>	<b>-3056</b>	<b>1266</b>

Although overall external account posted surplus and improved for the second consecutive year, sustaining this improvement would be challenging going forward. This assessment is based on the following; (a) current account deficit is likely to widen given the rising trend in international commodity prices and adverse impact of devastating floods, (b) problems in arranging external financing could also exacerbate due to uncertainty surrounding both the domestic and global recovery. The rising trend in the international commodity prices is clearly discernable December 2009 onwards; in fact the increase in the imports in H2-FY10 largely owes to increase in the commodity prices. This coupled with increase in imports of construction material and some key food commodities due to floods would inflate the import bill. On the other hand, exports growth could also lose momentum in coming months as global economic recovery is expected to slowdown. In addition the persistence of domestic factors such as energy crises, law and order situation, and increase in cost of inputs would also have adverse impact on exports.

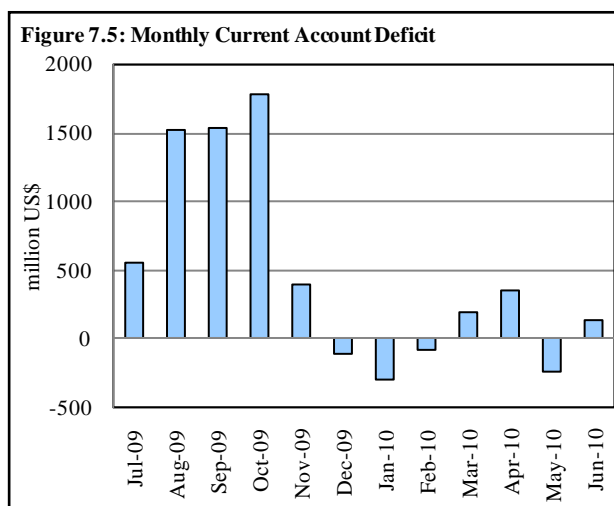
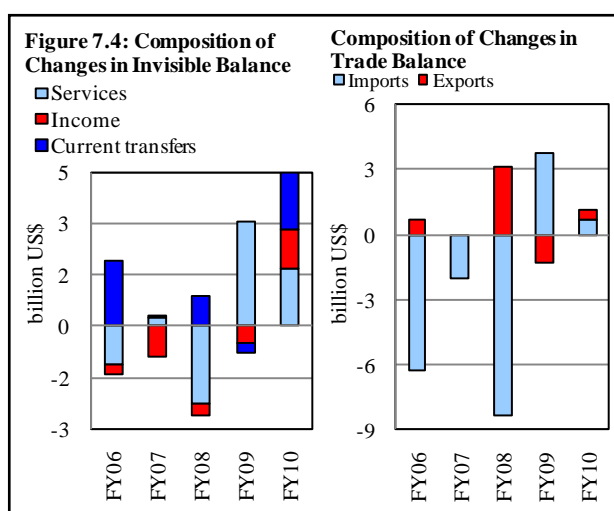
Given inherent weaknesses in the country's external accounts, it is imperative to devise strategies, both short-term and medium term that address these weaknesses. In the short-run well coordinated fiscal and monetary policies aimed at curtailing aggregate demand and efforts to secure financing are important. In the medium run, along with conducive monetary and fiscal policies, there is need to boost exports and remittances so that dependence on foreign funding could be reduced.

### 7.2.1 Current Account Balance

Current account deficit contracted by 62.3 percent during FY10 compared to 33.3 percent decline in the same period last year. The contraction in current account deficit was broad based and all subcomponents of trade as well as invisible accounts recorded improvement over the last year (see **Figure 7.4**). All the components of current account exhibited improvement of more than one billion dollar in FY10. In particular, higher exports, decline in imports, improved receipts under logistic support, lower payments under other business services and higher inflows under workers' remittances contributed significantly in the contraction of current account deficit during FY10.

Monthly data shows that most of the improvement in current account was concentrated in H1-FY10 during which the trade deficit contracted by 30.5 percent against an expansion of 5.7 percent in the latter half of the year (see **Figure 7.5**). Invisible account also posted a surplus of US\$ 3.6 billion in H1-FY10 against US\$ 400 million in the same period last year.

Going forward current account deficit is, however, likely to be higher due to adverse affect of the flood that has damaged cotton



crop<sup>2</sup>, food staples, livestock, and energy and transport networks. On the other hand, imports of petroleum products and diesel, and iron & steel are likely to rise following the start of rehabilitation activities. The extent of rise in current account is likely to be kept in check by the expected rise in current transfers as; (a) expatriates send higher remittance in order to help families back home to recover from the effects of floods, and (b) higher grants from international community.

### 7.2.2 Trade Account

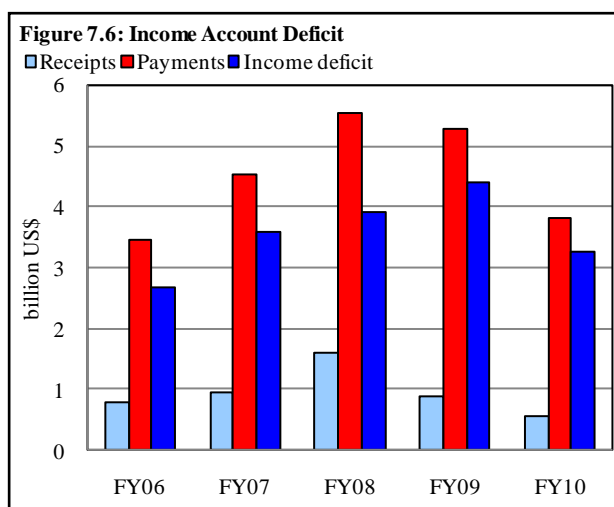
A small recovery in exports and a decline in imports helped in the contraction of trade deficit, which declined 9.5 percent in FY10 compared to a 15.7 percent contraction in the previous year. Recovery in exports was led by the primary commodities such as rice, cotton, fruits and vegetables as a result of better agricultural performance. Exports of jewelry and chemicals & pharmaceuticals also registered significant growth. A surge in rice exports was attributed to lower production in two major rice exporting countries India and Thailand, and the higher cotton exports were mainly because of lower cotton production in the major cotton producing countries.

On the other hand lower imports were mainly the outcome of lower average prices of almost all major commodities in international markets compared to the previous year. It is pertinent to mention that most of the YoY improvement in the trade account was concentrated in the first half of FY10. In the second half commodity prices started rising in international markets, which was supplemented by rise in quantum thus raising imports by over 18.0 percent. In particular, the imports of petroleum products, fertilizers and road motor vehicles increased significantly during H2-FY10. Similarly, exports also recorded healthy growth of 14.3 percent in the second half of FY10. (for details see **section on Trade**).

### 7.2.3 Services Account

In FY10, deficit in services account witnessed a sharp decline (50.4 percent) for the second consecutive year. A steep rise in services exports (25.4 percent) and significantly lower imports compared to the last year assisted in bringing down services account deficit to its lowest level in six years.

Increase in services exports was mainly contributed by logistic support, financial services and communication services. Higher exports of communication services resulted from the steps taken by Pakistan Telecommunication Authority (PTA) with the coordination of (Long Distance and International) LDI operators to curb illegal traffic (grey telephony) in the country. Contraction in services imports was the result of lower payments on account of freight costs, travel expenses and other business services imports. A continuous decline during the early months of FY10 in outflows through exchange companies as well as lower freight payments on account of decline in merchandise imports were the main factors behind this fall (for details see **section on Services**).

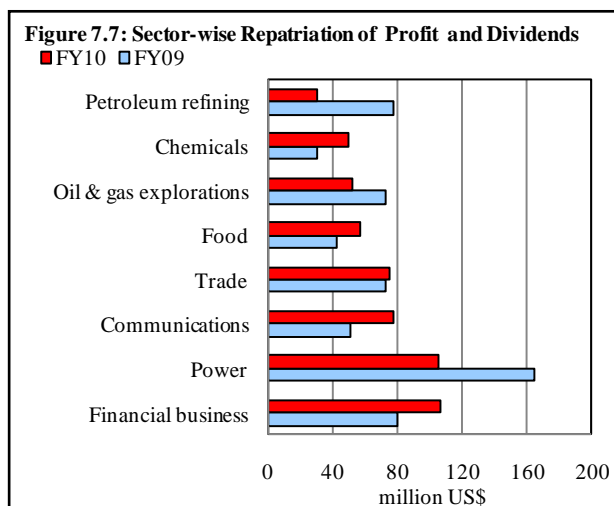


<sup>2</sup> As per initial estimates around 1.5 to 2.0 million bales have been destroyed because of floods in Pakistan and around 1.48 million acres agricultural land has been affected.

### 7.2.4 Income (net)

Income account deficit declined for the first time in five years in FY10. This considerable decline of 25.8 percent was largely on account of lower payments, which dropped to US\$ 3.8 billion during FY10 compared to US\$ 5.3 billion in same period last year see **Figure 7.6**). The decline in income payments was broad based, with declines recorded in purchase of crude oil, interest payments and profit & dividends.

The decline in repatriation of profit & dividends during the period includes those sectors which were directly or indirectly affected by the circular debt problem as these were operating below capacity. These include petroleum refining, power and oil & gas sector (see **Figure 7.7**). The companies that witnessed a significant fall include AES Pak Generation and Uch Power Project in power sector, Pak Arab Refinery in petroleum refining sector and OGDCL and Pakistan oil field, in oil and gas sector.

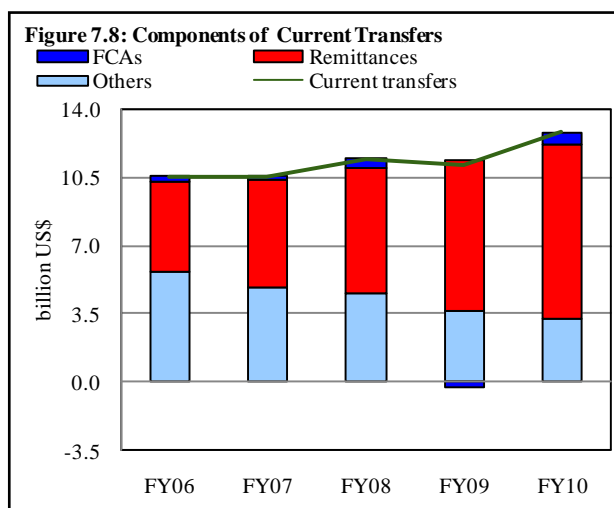


As regards the major increases in repatriation of profit and dividend, financial business, communication and food sectors recorded YoY increase during FY10. In case of financial business, dividend payments by two major banks with substantial foreign holdings explain this increase while repatriation of profit under Pak Telecom explains the increase in communication sector. Two major food manufacturing companies also repatriated higher profits and dividends in FY10 compared to FY09. It is also notable that major part of repatriation of profits and dividends was concentrated in the second and fourth quarter of FY10 showing seasonal pattern in such outflows.

The decline in net interest payments was mainly on account of fall in interest payments that more than offset the fall in interest receipts during FY10. The main factors include: (a) lower interest rates in international markets, (b) fall in the stock of relatively expensive debt of IDB, Euro Bond and private debt, and (c) decline in interest payments on foreign currency accounts of local banks. A part of these gains on account of income account were offset by increase in interest payments on IMF loans and decline in interest earnings on foreign exchange reserves.

### 7.2.5 Current Transfers

Current transfers recorded a healthy increase of 15.4 percent in FY10 against a decline of 2.8 percent in the preceding year (see **Figure 7.8**). Current transfers increased on account of persistent rise in workers' remittances, improved inflows in resident foreign currency accounts (RFCAs) and higher cash grants mainly for internally displaced persons (IDPs) from United Nations contributed to this increase. In this regard government and SBP's efforts helped in the improvement in private transfers. However, fall in other private transfers (US\$ 653 million) partially offset





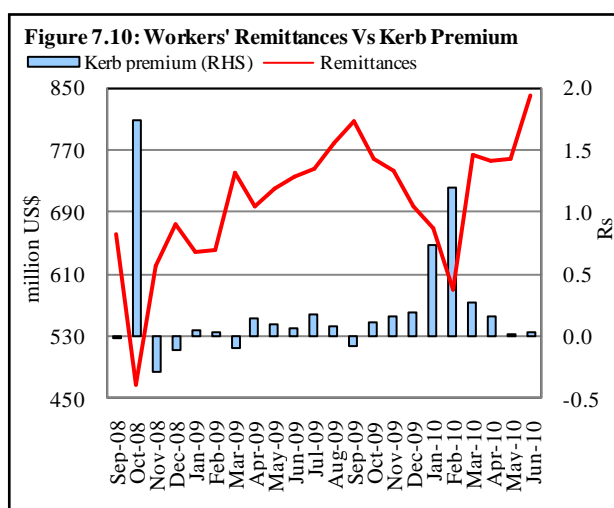
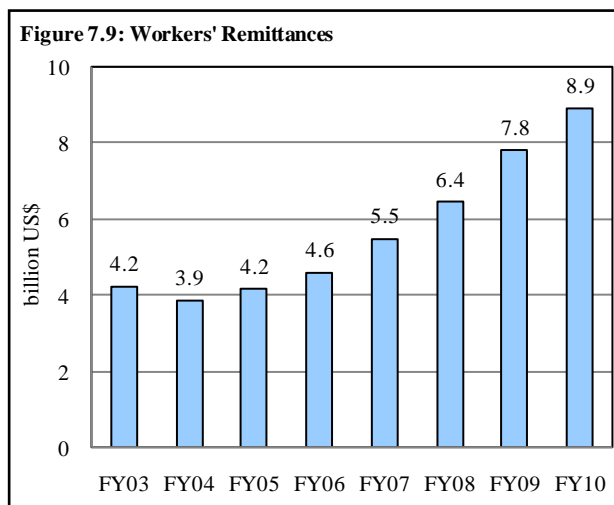
the positive effects on current transfers. It is pertinent to mention that the other private transfers have continuously declined after the SBP linked outflows from exchange companies to remittances collected by them.<sup>3</sup>

### Workers' Remittances

Workers' remittances recorded a remarkable growth for the fifth consecutive year with record annual receipts of US\$ 8.9 billion in FY10 (see **Figure 7.9**). This impressive growth of 14.0 percent was entirely from remittance inflows through the banking channels, remittances inflows through the exchange companies on the other hand registered a decline of 25.5 percent. A number of factors can be attributed to the growth in remittances through banks such as: (a) crackdown on foreign exchange companies involved in illegal money transfer, (b) tough competition from banks, (c) low kerb market premium through most of the year and (d) the effect of Pakistan Remittance Initiative (PRI)<sup>4</sup>. Monthly data shows that remittance growth during the initial months (Jul-Oct FY10) was quite healthy, however it could not sustain its pace in the ensuing months: Nov-Feb FY10 and slowed down significantly, but then picked up again in Mar-Jun FY10. The slowdown in remittances growth during the middle part of FY10 was partly due to rise in kerb market premium<sup>5</sup> and partly due to disruption in economic activities following terrorism incident in Karachi.

The rise in remittance inflows during the latter part of FY10 was mainly on account of a fall in kerb market premium with the increases registered not only by all major source countries but also all channels (see **Figure 7.10**). In particular, remittances through banks reached record high level in June 2010 reflecting the effect of relative stability of rupee that led to increase in rupee conversion of foreign currency accounts and the possible effect of Pakistan Remittance Initiative.

Country wise data shows that growth in the remittances during FY10 was driven by the increase in remittances from Kingdom of Saudi Arabia, United Arab Emirates and United Kingdom. These countries contributed 32.7 percent, 32.0 percent and 24.7 percent respectively in overall remittance growth. The remittances from other countries like



<sup>3</sup> See FED circular number 4 dated May 09, 2008

<sup>4</sup> PRI was introduced in August 2009 by the Ministry of Finance, Ministry of Overseas Pakistani's and the State Bank of Pakistan to boost workers' remittances through official channels and to protect the remitter and beneficiary from any loss. For details see SBP's Annual Report 2008-09 and Quarterly Reports 2009-2010 (Q1 to Q3).

<sup>5</sup> It is an important factor for remittance inflows. For instance exceptionally high premium in February 2010 caused sharp fall in remittances inflows.

USA, Canada, Qatar etc. also exhibited moderate growth during the period under review (see **Table 7.3**). Remittances routed through banks showed robust growth for the second consecutive year and contributed entirely in the overall growth during FY10, whereas the inflows of remittances through exchange companies declined significantly during this period. This shows possibly the effect of steps taken during the past couple of years such as; crackdown on some exchange companies, tie-ups of domestic banks with foreign entities, lower costs of sending funds through banks (see **Figure 7.11**).

The pace of growth of remittance could, however, fall in FY11. Remittance could grow strongly in the initial months of FY11 as expatriats send more money to assist the rebuilding effort after the floods. But in the later part of the year there is a possibility of slowdown in remittances as; (a) Saudi Arabia and other Gulf countries are localizing their job markets and thus export of Pakistani manpower to these countries could be adversely effected; (b) income levels of Pakistani workers in the US and the Euro zone may decline because of expected slowdown in economic recovery after the financial crisis.

### Resident FCAs

Resident Foreign Currency Account (RFCAs) showed a sharp reversal and exhibited an inflow of US\$ 629 million in FY10 against an outflow of US\$ 271 million during FY09. While the decline in RFCAs last year was mainly the result of rumors of possible freezing of foreign currency accounts, the expectation of rupee depreciation was mainly responsible for the rise in FY10 (see **Figure 7.12**). The rise in the RFCAs was continued by both personal and corporate accounts. Among the corporates UN, OGDC, and Power Utility Company were among the main concerns which registered health increases in their FCAs.

### 7.2.6 Financial Account

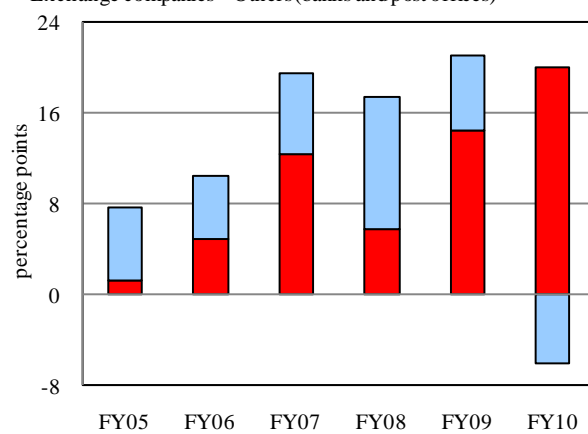
The decline in the financial account surplus continued for the third consecutive year. Fall

**Table 7.3: Country-wise Workers' Remittances**

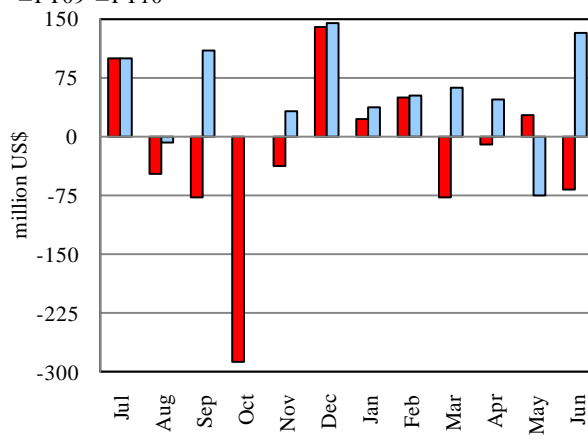
million US Dollar; growth contribution percentage points

Countries	FY09	FY10	Share in growth
Gulf region:	4,086.2	4,875.3	10.1
Bahrain	153.2	151.3	-0.02
Kuwait	432.0	445.1	0.17
Qatar	24.9	34.8	0.12
Saudi Arabia	1,559.5	1,917.9	4.6
Oman	227.8	287.3	0.8
U.A.E.	1,688.6	2,038.9	4.5
U.S.A.	1,735.9	1,771.3	0.4
U.K	605.6	876.3	3.5
Canada	79.1	115.1	0.5
Germany	100.7	81.2	-0.2
Japan	5.1	5.6	0.01
Australia	34.3	56.2	0.2
Others	1,164.1	1,124.5	-0.5
<b>Total</b>	<b>7,810.9</b>	<b>8,905.8</b>	<b>14.1</b>

**Figure 7.11: Contribution in Remittances Growth**  
■ Exchange companies ■ Others (banks and post offices)



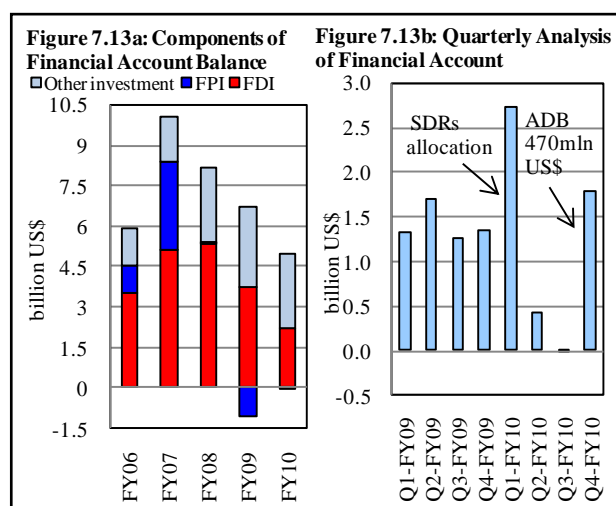
**Figure 7.12: Change in Resident Foreign Currency Accounts**  
■ FY09 ■ FY10





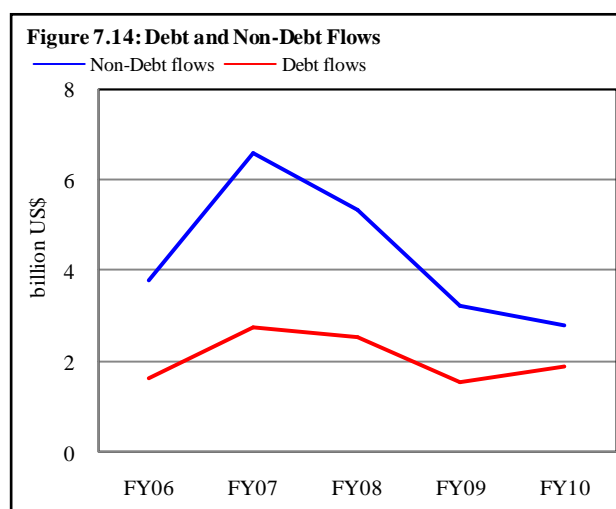
in foreign direct investment and other investments led to 11.2 percent YoY fall in financial account surplus. However situation of portfolio investment improved as net outflows decreased substantially in FY10 (see **Figure 7.13a**).

Quarterly analysis depicts that a large part of financial inflows materialized in Q1-FY10 and Q4-FY10. This performance is largely attributed to one-off IMF's SDR allocation of US\$ 1.2 billion and ADB loan inflows of US\$ 470 million respectively. However, decline in loan inflows coupled with repayments of maturing Sukuk bond worth US\$ 600 million deteriorated the financial account balance in Q2-FY10 and Q3-FY10 (see **Figure 7.13b**).



It is important to mention that the payment of Sukuk bond was the primary reason for the net outflows from portfolio investment in FY10, otherwise portfolio investment would have posted net inflows as well. Improvement in portfolio investment appears to be part of the risk diversification strategy of foreign brokerage firms as well as relatively better performance of the KSE. Foreign direct investment continued to be hampered by, relatively weak growth prospects, increased security risk and prolonged power crisis.

In terms of share held by debt and non-debt flows in financial account balance, non-debt flows declined for the third consecutive year due to poor performance of investment flows. The increase in debt flows during FY10 was due to combination of one time allocation of SDRs, IMF bridge financing loan to compensate for the short fall in FODP inflows and project loans from the ADB (See **Figure 7.14**).



Comparison of expected and actual loans largely explains the deterioration in the financial account. During FY10 actual inflows remained well below the projected inflows for the year. Not only program loans were below expectations but FODP and IMF loans were also lower than initially estimated (see **Table 7.4**). Had these pledges materialized the picture of financial account would have been quite different. Going forward, Pakistan's requirements for foreign inflows is likely to increase as current account is expected to widen in FY11. Given that the SBA with the IMF that has been the major source of financing in FY10 would end in FY11, it is all the more important to chalk out a strategy to reduce reliance on debt creating flows and instead work

**Table 7.4: Inflows During FY10**  
million US Dollar

	Projected	Actual
<b>Project loans</b>	1024.73	1058.45
<b>Programme loans</b>	4,459.5	1,941.7
of which: Tokyo pledges	1,758.5	300.0
<b>IMF</b>	4,656.4	3,526.0

Source: Economic Affairs Division, Ministry of Finance & International Monetary Fund(IMF)

for a conducive environment that would enhance non-debt creating inflows. Efficient infrastructure, good law and order situation and political stability along with strong economic fundamentals are key to attracting foreign investment.

### Net Foreign Investment

Foreign investment (net) fell by 19.8 percent during FY10 compared to last year. The main contributing factor behind this fall is the substantial decline of 40.8 percent in the foreign direct investment. This fall in investment inflows mainly owed to weakening macroeconomic fundamentals, power crises and deteriorating law and order situation in the country. Moreover, the payment of US\$ 600 million for the maturing Sukuk Bonds put further pressure on the net foreign investment flows during the period under review. However, US\$ 587.9 million investment equity market provided some cushion to falling investment flows during FY10 (see **Table 7.5**).

**Table 7.5: Net Inflow of Foreign Investment in Pakistan**  
million US Dollar ; growth in percent

	FY09	FY10	Growth
<b>Foreign investment</b>	<b>2,665.4</b>	<b>2,136.8</b>	<b>-19.8</b>
<b>I. Private investment</b>	<b>3,209.5</b>	<b>2,789.2</b>	<b>-13.1</b>
Foreign direct investment	3,719.9	2,201.3	-40.8
Portfolio investment	-510.4	587.9	215.2
Equity securities	-409.8	600.9	246.6
Debt securities	-100.6	-13.0	87.1
<b>II. Public investment</b>	<b>-544.1</b>	<b>-652.4</b>	<b>-19.9</b>
of which: Debt securities*	-544.1	-652.4	-19.9

\* Net sale/purchase of Special US dollar bonds, Eurobonds, FEBC, DBC, T-bills and PIBs

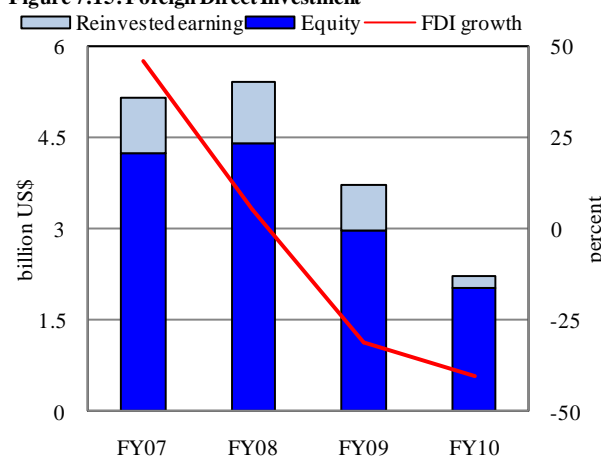
### Foreign Direct Investment

Decline in foreign direct investment continued for the second consecutive year. The YoY decline of 40.8 percent in foreign direct investment is reflected by the decline in both, equity capital and reinvested earnings. Equity capital recorded a fall of 32.6 percent whereas reinvested earnings declined by 74.1 percent during FY10 (see **Figure 7.15**). Domestic factors as well external factors contributed this fall in foreign direct investment.

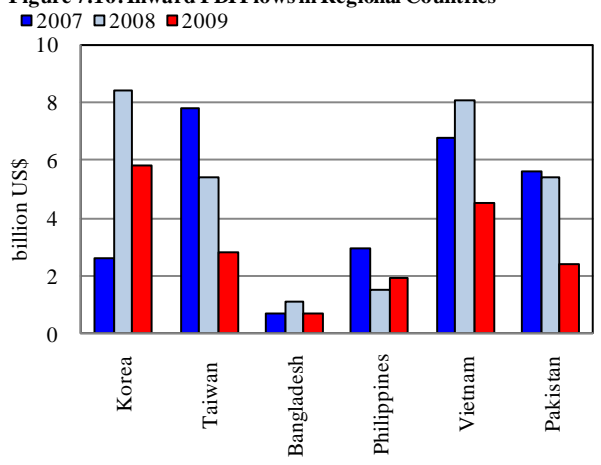
On the domestic front, poor security situation, energy crises, weak macroeconomic fundamentals and circular debt issue proved to be main hurdles for investment flows. These factors not only lowered the equity flows but also increase the cost of doing business, which resulted in significant decline in reinvested earnings during the period under review.

Moreover, these domestic factors coupled with external factors further weakened the foreign direct investment flows. Although global economy recovered somewhat in FY10 environment of risk aversion reduced global overall outward foreign direct investment flows that recorded a decline of 43 per cent to

**Figure 7.15: Foreign Direct Investment**



**Figure 7.16: Inward FDI Flows in Regional Countries**



\$1,101 billion in CY09.<sup>6</sup> Many companies delayed/postponed their investments amid global market uncertainty, reduced corporate profits and difficulty in obtaining credit. Falling profits, rising financial pressures on parent firms, and repayments of loans from foreign affiliates to their parent companies caused this contraction. As a result, FDI inflows to developing countries contracted and many countries observed a decline during CY09 and as such Pakistan was no exception (see **Figure 7.16**). Apart from these issues, Pakistan also laggings behind in other factors that influence the level of FDI (see **Box 7.2**)

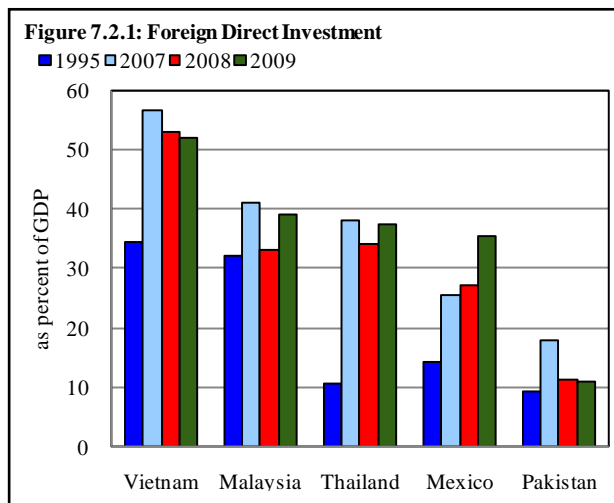
#### Box 7.2: Factors determining the level of FDI

Although when it comes to economic liberalization and global integration, Pakistan's stance is very encouraging yet the stock of foreign direct investment as percentage of GDP in Pakistan has remained low as compared with some of the emerging economies (see **Figure 7.2.1**).

Some fundamental requirements have been pointed out in order to increase the inflows of FDI in a country; unfortunately Pakistan has so far failed or has been slow in achieving these fundamental requirements. Comparative analysis reveal that Pakistan's ranking in all the major factors is low compared some of the regional countries (see **Table 7.2.1**).

*Political Stability* is instrumental in building the confidence of foreign investors as political ensures consistency in the economic policies. Unfortunately, political instability in Pakistan has not only been associated with administrative changes but also with the changes in economic policies, which has deterred the flow of FDI in Pakistan.

*Economic strength* is the basic prerequisite as macroeconomic stability reflects how strong an economy is and how it can adjust to external or internal economic shocks. Unfortunately, low GDP growth, high inflation, falling industrial production and exchange rate volatility has characterized Pakistan's economy in recent years.



**Table 7.2.1: Countries Comparison of Global Competitive Indicators**

Countries	Institution	Infrastructure	Macroeconomic stability	Health & education	Business sophistication	Market size	Favoritism	Labor market efficiency
Thailand	60	40	22	61	43	21	66	25
Malaysia	43	26	42	34	24	28	37	31
Vietnam	63	94	112	76	70	38	57	38
Mexico	98	69	28	65	62	11	85	115
Pakistan	104	89	114	113	81	30	87	124

Economic policies needs to be consistent and in line with global practices. However complex legal formalities and amendments or altering of rules and regulations always creates an environment of uncertainty.

*Government Bureaucracy* is another problem area. Slow implementation of policies and no check and balance on these policies reflects the poor management at the top.

*Business Environment* has not been made comfortable for foreign investors. Lack of professionalism is the major hurdle in creating a friendly business environment.

*Infrastructure* facilities are below the international standards. From transportation and communication services to power supplies, Pakistan is lagging behind not only in quality but also in terms of prices. For instance, Karachi port is much expensive then Jebbel Ali.

*Labor force* is considered to be an important asset provided that it is well educated and skilled. Unfortunately in case of Pakistan, majority of the labor force is unskilled and is proving to be a liability.

<sup>6</sup> World Investment Report 2010, UNCTAD

*Protection of civil and property rights* must be ensured in order to guarantee social and moral security to foreign investors.

*Judicial system* must be strong enough to enforce laws in letter and spirit. Strong judicial system is also imperative in order to curb corruption

These fundamental points coupled with technological innovation are very important in order to ensure foreign direct investment flows in the country.

#### References

- (1) "Foreign Direct investment In Pakistan: Policy Issue and Operational Implications" by Dr. Ashfaq H. Khan and Yun-Hwan Kim (July 1999)
- (2) "Global Competitiveness Report 2009-2010"
- (3) "World Investment Report 2010: Investing in a Low-carbon Economy"

**Table 7.6: Sector -wise Foreign Direct Investment**  
million US Dollar

Sectors	FY09			FY10		
	Cash	Re-invested earnings	Total	Cash	Re-invested earnings	Total
Oil & gas explorations	546.8	228.2	775.0	547.0	203.6	750.6
Telecommunications	900.7	-85.8	814.9	477.5	-103.9	373.7
Financial business	508.5	199.1	707.6	115.9	47.1	163.0
Trade	121.0	45.6	166.6	80.6	36.5	117.1
Chemicals	5.3	68.9	74.3	76.5	35.6	112.1
Petroleum refining	39.0	93.1	132.1	31.2	73.3	104.5
Construction	93.2	0.2	93.4	107.7	-6.1	101.6
Personal services	94.6	5.5	100.1	57.8	4.7	62.5
Cement	9.0	23.6	32.6	0.4	-1.6	-1.2
Power	151.0	-28.6	122.4	48.8	-160.5	-111.7
Others	512.4	188.6	701.0	465.9	63.3	529.2
<b>Total</b>	<b>2981.6</b>	<b>738.3</b>	<b>3719.9</b>	<b>2009.4</b>	<b>191.9</b>	<b>2201.3</b>

Component-wise analysis of foreign direct investment indicates that both declining equity and re-invested earnings contributed in the fall of FDI. Although the decline in equity was more prominent but reinvested earnings also deteriorated in comparison to FY09. The fall in reinvested earnings is due to both fall in the profitability and increased losses of some major companies. However major chunk of the fall in foreign direct investment is explained by lack of mergers & acquisitions, poor law & order situation, power shortages and circular debt issue.

Sector-wise analysis shows that all of the major sectors received lower foreign direct investment during FY10; a large part of overall fall stemmed from *communication, financial* and *power* sector (see **Table 7.6**).

In case of *communication sector*, stiff competition, rising advertisement and utilities cost and energy crises reduced the profits of mobile companies. Situation of telecom industry was further aggravated by high borrowing cost and exchange rate losses due to Pak rupee depreciation. Consequently, four of the five mobile operators incurred net losses during the year 2008-09.<sup>7</sup>

FDI in *power sector* also recorded a significant fall despite investment in KESC project at Port Qasim and Uch Power Project. This contraction in FDI flows to power sector is mainly attributed to

<sup>7</sup> Pakistan Telecommunication Authority, Telecom Quarterly Review, December 2009.

divestment by one of the major power generation companies and outflows on account of losses incurred by KESC.<sup>8</sup>

Unlike the preceding year when investment flows in *oil & gas exploration* sector increased, the marginal decline observed in FY10 is largely explained by the law & order situation and circular debt issue that forced the companies to operate below capacity. The drilling activities also slowed down

during FY10. Investment flows in oil & gas exploration sector largely stemmed from investment in British Petroleum (BP) Pakistan Exploration & Production Inc. BP, however in line with the crisis related to BP, is expected to divest exploration and production operations in Pakistan by the December 2010.<sup>9</sup> In case of this divestment to local company, investment flows may face a decline going forward. Major companies recorded FDI inflows other than above sectors included APL Co PTE Ltd (Transport) US\$ 154 million, Packages (Pvt) limited (paper & pulp) US\$ 80 million, Shell Pakistan Ltd (Trade) US\$ 39 million and Dawood Hercules Chemicals Ltd (chemicals) US\$ 38.9 million during the period under review.

### Country wise FDI

Country-wise analysis of foreign direct investment indicates that major inflows originated from USA, UK and UAE. Both UK and UAE showed modest recovery in FY10 after registering a substantial decline in FY09. However, FDI from USA continued to decline for another year falling 43.9 percent during the period under review (see **Table 7.7**).

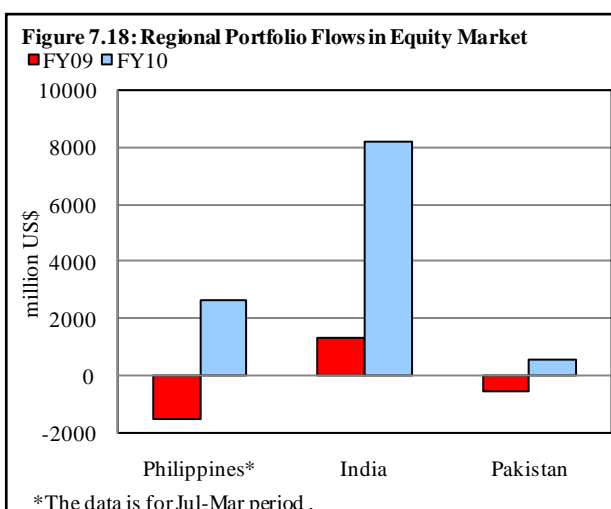
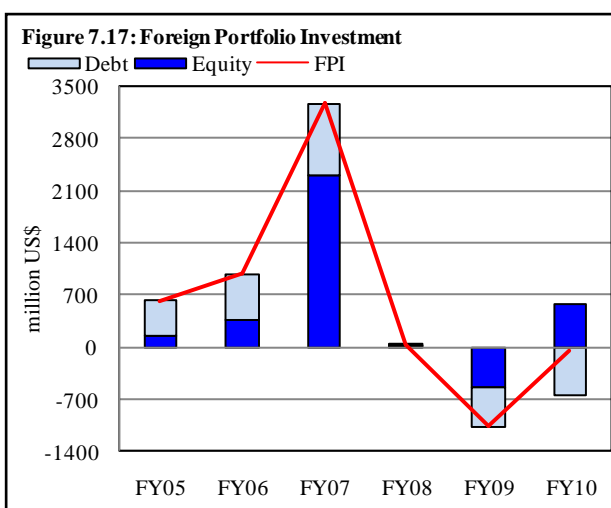
### Foreign Portfolio Investment

Foreign Portfolio investment registered net outflow for the second consecutive year, however this year the net outflow was relatively smaller than last year (see **Figure 7.17**). This capital outflow was contributed by repayment of maturing Sukuk bonds worth (US\$ 600 million) which more than offset the impact of equity inflows.

**Table 7.7: Country-wise FDI**

value in million US Dollar, growth in percent

	FY08	FY09	FY10	FY10	FY10
	Value	Value	Value	Abs. change	YoY growth
USA	1309.3	869.9	488.4	-381.5	-43.9
UK	460.2	263.4	294.6	31.2	11.8
UAE	588.6	178.1	242.7	64.6	36.3
<b>Total</b>	<b>5409.8</b>	<b>3719.8</b>	<b>2201.3</b>	<b>-1518.5</b>	<b>-40.8</b>



<sup>8</sup> AES Lalpur Ltd. and AES Pak Generation based in Muzaffargarh.

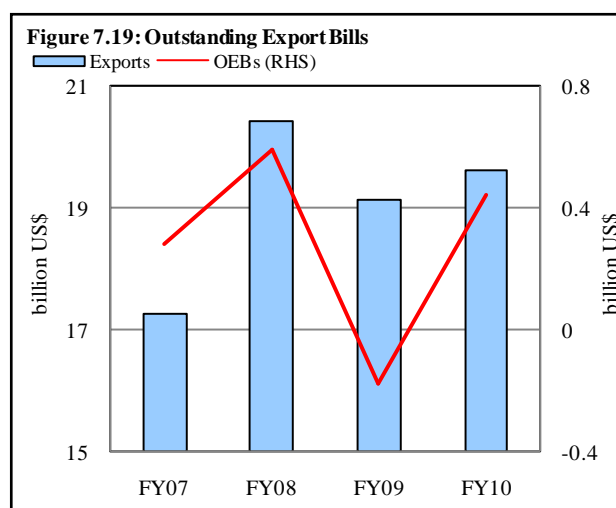
<sup>9</sup> British Petroleum's decision to pullout from Pakistan is in line with its plan to sell global assets to help raise funds to compensate for the oil spill in the Gulf of Mexico.

In case of equity inflows, improved performance of stock market<sup>10</sup> attracted foreign investors and investment in equity market increased substantially during FY10. Factors like re-entry of the country into MSCI frontier market index and fall in Pakistan's risk premium as reflected by Credit Default Swap (CDS) spread proved to be instrumental in attracting investment.<sup>11</sup> The improvement in foreign portfolio flows in equities is broadly in line with the portfolio flows of some of the regional economies (see **Figure 7.18**). Investment in stock markets of all the three countries turned positive in FY10 owing to improved economic indicators. Stock markets of both the developed and emerging economies were severely affected as financial crisis intensified in FY09.

### **Outstanding Export Bills**

The stock of aggregate outstanding export bill increased by US\$ 423 million in FY10 as compared with declining stock of outstanding export bills during FY09. The increase in stock of OEBs stemmed from the stock held by exporters. These increased by US\$ 420 million whereas stock of outstanding bills held by commercial banks increased by only US\$ 3 million.

This increase in aggregate stock of outstanding export bills is in line with the rising merchandise exports. The outstanding export bills declined in FY09 due to fall in exports, however with the revival in exports during FY10, the outstanding export bill also increased (see **Figure 7.19**). Moreover, the increase in stock of OEBs can also be attributed to depreciation of Pak rupee as market players hold back their earnings to take advantage of expected local currency depreciation.



### **Currency and Deposits (Assets)**

Currency and deposits recorded a decline of US\$ 428 million during FY10 compared to a decline of US\$ 229 million observed during FY09. In line with last year's fall, this drop is largely explained by the decline in commercial banks' FE-25 nostros. It is pertinent to mention although commercial banks' FE-25 nostros declined in FY09 as well but the large fall of US\$ 383 million in FY10 is attributed to shifting of oil payments to interbank market during FY10 that added pressure on commercial bank nostros.

### **Official Long Term Loans (net)**

This head recorded a net inflow of US\$ 2.0 billion during FY10 against an inflow of US\$ 1.6 billion received during FY09. Although the amount of repayments remained almost the same in both years but it was increase in loans that resulted in higher inflows during FY10. The large part of this increase stemmed from bridge financing from IMF i.e. US\$ 1.1 billion. Other part of increase stemmed from ADB (US\$ 0.6 billion) and World Bank (US\$ 0.4 billion).

### **Official Short Term Loans (net)**

The official short term loans registered net outflow of US\$ 620 million during FY10 in with net outflows of US\$ 123 million in the preceding year. Although the level of inflows remained relatively the same in both years, it was the repayments that made the difference. Repayment of US\$ 973

<sup>10</sup> Stock market performance is reflected by KSE-100 index value.

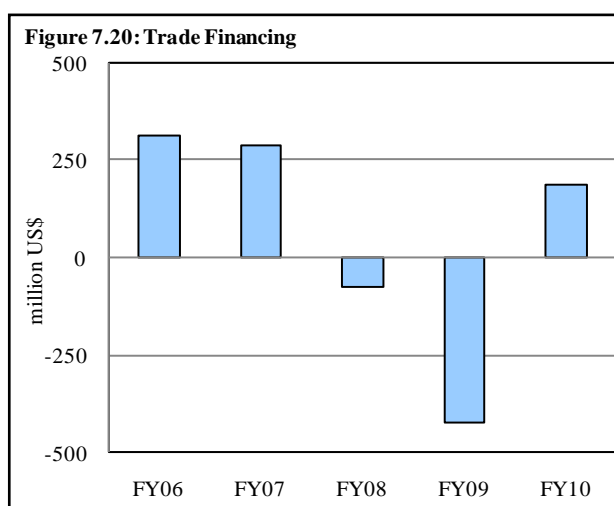
<sup>11</sup> Credit Default Swap (CDS) spread fell to 497.8 basis points on August 13, 2010 from 1863.7 basis points on May 5, 2009.



million to IDB was the prominent factor behind the overall net outflows during FY10. Had this repayment not been made, the official short term loans would have recorded a net inflow.

### Private Loans

The private loans net inflows declined by US\$ 568.0 million during FY10. The interesting development was that the level of repayments remained the same; however it was the decline in inflows of private loans that resulted in the overall decline. The major companies that recorded loan inflows were KESC (US\$ 115 million), Fauji Cement Company Ltd (US\$ 74 million), Engro Chemical Pakistan Ltd (US\$ 50 million) and Pakistan Refinery Ltd (US\$ 50 million) during FY10.



### Currencies and Deposits (liabilities)

Currency and deposits increased by US\$ 230 million during FY10 compared with the increase of US\$ 299 million in the corresponding period last year. This decline was entirely attributed to fall in rupee accounts held by non-residents.

However, this decline was offset to the greater extent by the disbursement of US\$ 187 million worth of trade loans against FE-25 deposits. It is important to mention that trade financing recorded net disbursement in FY10 against net retirement for the last two years (see **Figure 7.20**). This is mainly due to the relative exchange rate stability during the period under review.

**Table 7.8: Summary of Consolidated Services Trade Account**  
million US Dollar, growth in percent

	Abs. value		growth	
	FY09	FY10	FY09	FY10
<b>Total exports</b>	4,106.0	5,147.1	14.4	25.4
<i>of which</i>				
Transportation	1,231.0	1,149.3	18.9	-6.6
Government services	1,523.0	2,527.9	10.4	66.0
<b>Total imports</b>	7,487.0	6,805.2	-25.5	-9.1
<i>of which</i>				
Transportation	3,633.0	3,455.0	-4.0	-4.9
Other business services	1,648.0	1,082.3	-52.0	-34.3
<b>Trade balance</b>	<b>-3,381.0</b>	<b>-1,658.1</b>	<b>-47.6</b>	<b>-51.0</b>

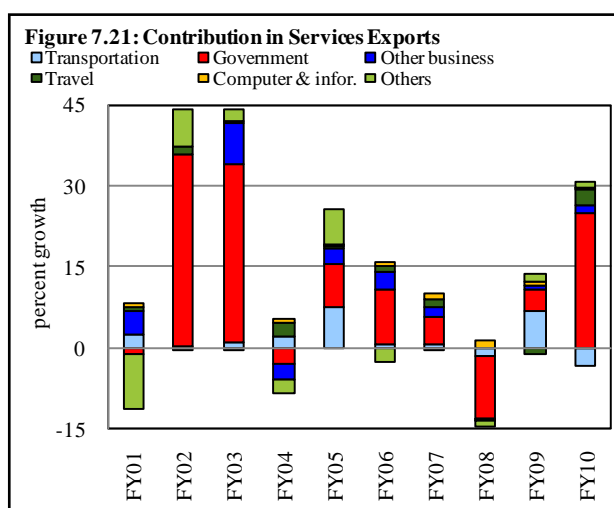
## 7.3 Trade in Services

During FY10, services account deficit contracted by 51.0 percent YoY compared to 47.6 percent decline last year (see **Table 7.8**). The improvement in the trade balance reflected acceleration in the exports growth and a contraction in imports during the year.

The impressive growth in the services exports during FY10 was on account of robust performance by the government services sector. Fortunately, this was complimented by fall in transportation and other business services imports, resulting in a substantial decline in the services trade deficit.

### 7.3.1 Services Exports

Services exports registered a growth of 25.4



percent during FY10 compared to growth of 14.4 percent last year, largely due to better receipts under “government services exports”. As a result, the government services exports during FY10 has restored its largest contribution in overall services export growth (see **Figure 7.21**).

**Government services exports** posted a robust growth of 66 percent during FY10 compared to 10.3 percent in the same period last year (see **Table 7.9**). Compositional breakup reveals that the major

**Table 7.9: Government Services Exports**  
million US Dollar ; share and growth in percent

	Absolute amount		Share		Growth	
	FY09	FY10	FY09	FY10	FY09	FY10
<b>Logistic</b>	<b>1100.0</b>	<b>1649.7</b>	<b>72.2</b>	<b>65.3</b>	<b>19.9</b>	<b>50.0</b>
<b>Non- logistic</b>	<b>422.7</b>	<b>878.2</b>	<b>27.8</b>	<b>34.7</b>	<b>-8.6</b>	<b>107.8</b>
Remittances recieved. by foreign missions in Pakistan	260.3	289.0	17.1	11.4	2.7	11.0
Other government services	12.7	11.8	0.8	0.5	-53.1	-6.8
Remittances received by int. rg.	32.3	268.0	2.1	10.6	-35.2	729.1
Receipt through central govt.	0.0	0.0	0.0	0.0		
Receipts through international bodies	85.0	253.8	5.6	10.0	-14.4	198.6
Earnings of Pak diplomatic mission abroad	32.4	55.5	2.1	2.2	-1.5	71.4
<b>Total</b>	<b>1522.7</b>	<b>2527.9</b>	<b>100.0</b>	<b>100.0</b>	<b>10.3</b>	<b>66.0</b>

contribution in the growth during FY10 came from the non-logistic receipts which recorded an increase of 107.8 percent compared to a decline of 8.6 percent last year. Non-logistic support increased on account of rise in receipts from international bodies as well as remittances received by international organizations. The abrupt growth in the receipts under these two heads increased their share to 20.6 in the government services exports from only 7.7 percent last year. This increase probably reflects the extended financing received by UN and non-UN agencies for carrying out operations related to the rehabilitation of IDPs. A part of rise in non-logistic support could also be attributed to the increase in remittances received by the foreign mission in Pakistan, probably reflecting the increased spending by foreign embassies and consulates in view of the deteriorating law and order situation in the country.

**Table 7.10: Major Services Exports**  
billion US Dollar

	FY09		FY10	
	Jul-Mar	Apr-Jun	Jul-Mar	Apr-Jun
Transportation	1019	212	839	310
Travel	248	66	273	68
Communication services	78	118	184	62
Other business services	371	122	397	140
Government services	858	665	1126	1402
Others	277	72	274	72
<b>Total Exports</b>	<b>2851</b>	<b>1255</b>	<b>3093</b>	<b>2054</b>

Despite significant rise in the non-logistic support, logistic support still has the largest share in the government services exports during FY10. The increase in the logistics support inflows owes to the reimbursement of validated claims of the previous years by the Pakistan under logistic support fund.

Quarterly analysis of government services exports shows that the receipts under this head saw a marginal increase during Jul-Mar FY10 compared to last year. However, end-June services trade accounts observed a large addition to the government services export during Q4-FY10. As a matter of fact, government services export during Apr-Jun FY10 represents 55.5 percent of the receipts of the entire fiscal year (see **Table 7.10**). The huge addition to government services export in Q4-FY10 was led by US\$ 1.2 billion rise in logistic support.

*Transportation services* exports witnessed a decline of 6.6 percent during FY10 against an increase of 18.9 percent last year. The reduction in exports of transportation services is attributed to decline

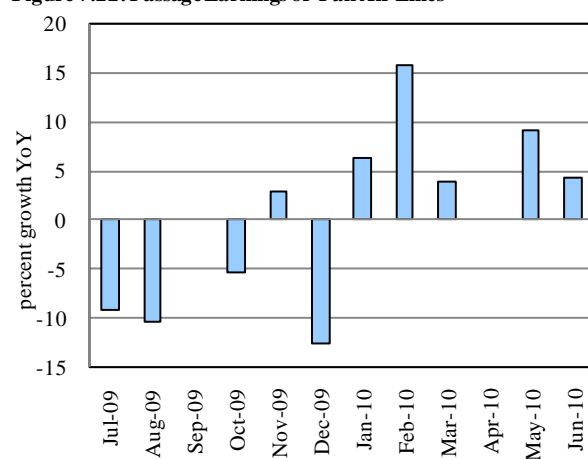
freight earnings on account of falling merchandise exports and reduced local operations of foreign transport companies. On the other hand “passage earnings” of domestic airlines which comprise more than half of the overall transportation services exports remained at the FY09 level.

Monthly analysis reveals that passage earnings of domestic airlines decreased in the initial months of FY10 (see **Figure 7.22**). This was mainly due to a fall in seat occupancy of the international flights of national airlines, reflecting the reduced number of foreign travelers due to worsening law and order

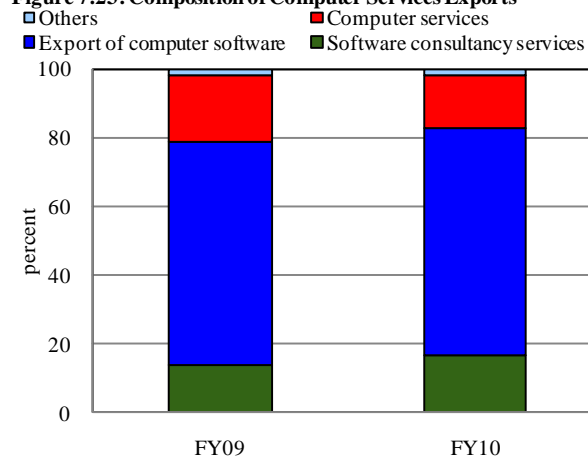
situation in the country. However in the latter months of FY10, some recovery was seen in passage earnings of Pakistani airlines that came in the wake of decision by some of the international airlines to discontinue their operations in Pakistan due to security concerns. As a result, the national air carrier PIA opened up some new destinations and increased flight frequency to some of the established destinations.

Freight earnings declined by 16 percent during FY10 against 4 percent decline last year. It may be noted that global freight markets were still under pressure by the economic downturn in early months of FY10<sup>12</sup>. However, since March 2010, freight earning has seen a return to positive year on year growth. This recovery, however, again saw a dip in the month of April 2010, as airline lost freight revenues, following volcanic eruption in Iceland that disrupted flight earnings through most of Europe and North America. Other local disbursements of foreign airlines and shipping companies also fell by 15 percent YoY on account of stoppage of flight operations by six gulf-states airlines following deterioration in law and order situation in the country.

**Figure 7.22: Passage Earnings of Pak Air Lines**



**Figure 7.23: Composition of Computer Services Exports**



<sup>12</sup> IATA reports that Airlines lost \$9.9 billion during financial year 2009. Passenger traffic fell 2.1 percent, while cargo dropped to 9.8 percent.

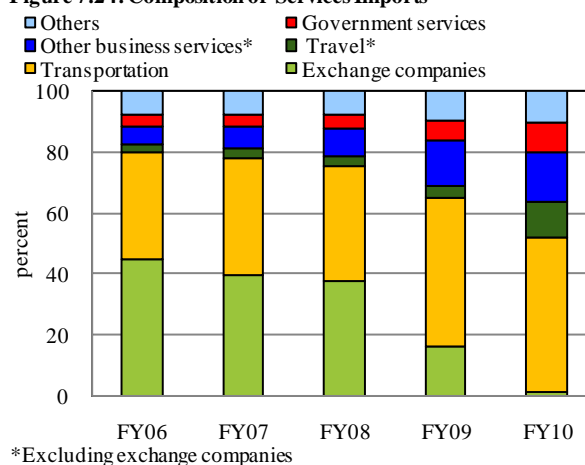
*Computer and information services exports* witnessed a modest increase of 2.3 percent during FY10 in contrast to the outstanding growth rates of 19.5 in the same periods last. The deceleration in growth of this sector might be attributed to falling foreign demand. The notable performance of software consultancy services and computer software export was largely offset by the decline in other computer services category leaving the overall growth to much lower level (see **Figure 7.23**). Monthly analysis reveals that from December 2009 onward, the growth of exports of computer and information services is back on track after suffering a slump in the wake of global economic recession. The export growth gradually got momentum with the recovery of developed economies where Pakistan has good markets<sup>13</sup>.

Exports of *communication services* recorded a growth rate of 25.7 percent during FY10 compared to 67.1 percent during previous year (see **Table 7.11**). The major contribution in the overall communication growth came from the rising exports of telecommunication services through the authorized telecom operators, following aggressive measures taken by Pakistan Telecommunication Authority (PTA) against illegal exchanges.

Similar to communication services, growth in the *travel services* export also declined significantly during FY10 compared to last year. Travel services exports on account of foreign tourists which constitutes almost 80 percent of overall travel services exports recorded 35 percent growth during FY10 compared to a decline of 14 percent last year. This probably reflects the revival of the tourism industry, as the major scenic sites were being cleared off the militant groups in late 2009.

*Other business services* export fell by 0.5 percentage points to reach at 9.0 percent during FY10. This decline is attributable to the fall in *agency commission, architect & technical services and miscellaneous items*. This fall, however, was largely compensated by the positive contributions by *Business &*

**Figure 7.24: Composition of Services Imports**

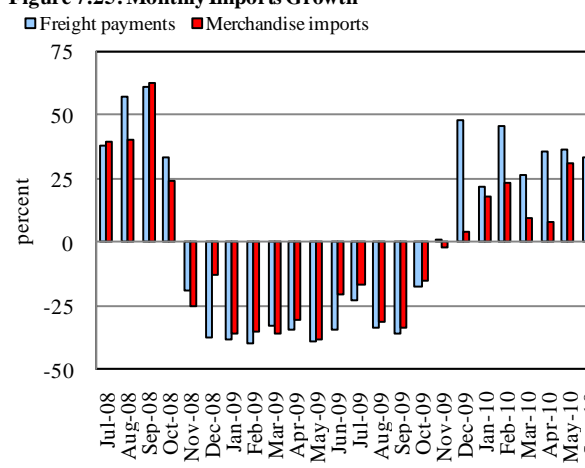


**Table 7.11: Communication Services Exports**

million US Dollar

	Abs. value		Growth	
	FY09	FY10	FY09	FY10
Postal services	0.1	0.3	152.4	492.5
Courier services	0.9	1.2	-69.5	28.2
Telecommunication services	177.0	227.7	77.4	28.6
Call centre	17.5	16.6	24.3	-5.4
<b>Total exports</b>	<b>195.6</b>	<b>245.8</b>	<b>67.1</b>	<b>25.7</b>

**Figure 7.25: Monthly Imports Growth**



<sup>13</sup> USA is the largest buyer of IT-enabled services with of 50.4 percent share, followed by UK with 15 percent share in total IT services export.

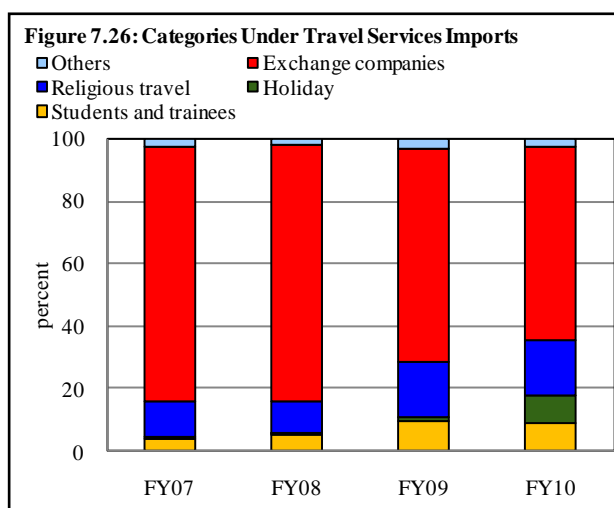
*management consultancy & public relations* and the *Misc. other business services* in the overall business services export. Also refunds on weight loss or claims on price saw a fall during FY10, mainly due to lower level of imports in the period under discussion.

### 7.3.2 Services Imports

Pakistan's overall services imports stood at US \$ 6.8 billion during FY10; registering a decline of 9.1 percent compared to 25.5 percent fall in FY09. The decline in the services imports was broad based, as all major groups experienced negative growth; except for government services imports. The continued decline in the services imports was primarily due to the restrictions on the foreign exchange outflow from foreign exchange companies imposed by SBP<sup>14</sup>. It is pertinent to note here that the large portion of services import routed through exchange companies were captured by travel and other business services categories in overall services import in past years (see **Figure 7.24**). In addition to fall in the foreign exchange companies' outflows, the decreased payment of freight was the other major factor behind the fall in the overall services import. This was attributed to lower merchandise imports and reduced passage earnings of foreign airlines during the year. Freight payments which constitute almost 73 percent of overall transportation services imports increased by only 3 percent during FY10. Monthly analysis reveals that freight payments observed a YoY decline in H1-FY10. However in the second half of the FY10 freight payment increased in line with recovery in the merchandised imports (see **Figure 7.25**). The payments to foreign airlines also witnessed fall of 22 percent during FY10 compared to a 2 percent last year. This was mainly due to the closure of flight operations by some major international airlines.

*Travel services* imports declined by 12 percent during FY10, reflecting outflows restrictions on exchange companies. As a result, share of exchange companies in travel services imports declined to 62 percent in FY10 from 68.4 percent last year (see **Figure 7.26**). Also, payments under the religious travel (Hajj) decreased by 11.0 percent during FY10 compared to a rise of 8 percent last year. This might be explained by the decline in the number of pilgrims during the year<sup>15</sup>. Furthermore, the category of *holiday on recreational tours abroad* recorded strong growth, raising its share to 8.5 percent in FY10 from 1.4 percent last year.

The *other business services* also experienced a fall of 34 percent during FY10 compared to the decline of 52 percent in the previous year. Similar to travel services imports, the other business services continued to decline, primarily due to outflows restrictions by SBP on exchange companies initiated from May 2008. As a result, the share of exchange companies dropped to 12 percent, which was nearly 73 percent in early 2008 in overall other business services imports (see **Table 7.12**). In contrast, government services imports posted an increase of 40 percent during FY10 compared to a decline of 3.7 percent last year.



<sup>14</sup> During FY09 SBP imposed number of restrictions on outflows from exchange companies that curtailed both imports and export payments through exchange companies.

<sup>15</sup> According to Hajj Policy 2009, the number of pilgrims under the Government Scheme declined by 5,000 during 2009 compared to last year.

**Table 7.12: Other Business Services Imports (Major Components)**

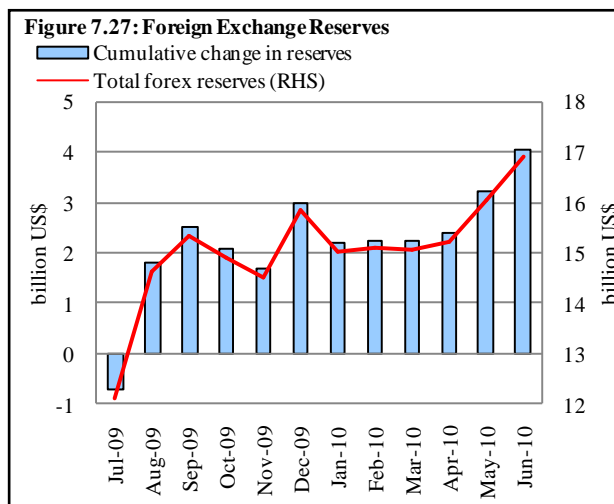
million US Dollar

	Abs.values			Share		
	FY08	FY09	FY10	FY08	FY09	FY10
Merchanting services	5.8	14.4	7.9	0.2	0.9	0.7
Charter of ships without crew-on-leasing	0.5	9.2	25.9	0.0	0.6	2.4
Legal services	48.7	30.4	5.3	1.4	1.8	0.5
Buss. & mang. consult., and public rel.	32.8	52.6	50.1	1.0	3.2	4.6
Agency commission	144.8	154.8	176.7	4.2	9.4	16.3
Adv., market res., & public opin. Poll.	14.8	9.6	14.3	0.4	0.6	1.3
Research and development Services	3.1	2.0	4.8	0.1	0.1	0.4
Architect., eng., and technical services	83.8	149.0	150.6	2.4	9.0	13.9
Payments to journalists	2.9	1.9	0.4	0.1	0.1	0.0
Technical fees to foreigners	530.6	541.7	444.8	15.5	32.9	41.1
Miscellaneous services, n.s.e.	109.3	197.7	132.5	3.2	12.0	12.2
Exchange companies	2504.0	530.0	129.0	73.0	32.2	11.9
Refund	-58.4	-58.9	-63.4	-1.7	-3.6	-5.9
<b>Total</b>	<b>3432.2</b>	<b>1648.0</b>	<b>1082.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

#### 7.4 Foreign Exchange Reserves

During FY10, Pakistan's foreign exchange reserves increased by US\$ 4.0 billion to reach a new peak of US\$ 16.9 billion (see **Figure 7.27**). A host of factors contributed to the increase in the reserves, this included relatively small trade deficit, healthy growth in the remittances, inflows from the IMF and enhancement of the SDR quota. Shifting of the oil payments back to the interbank also helped in plugging the drain on the SBP reserves. As against a significant improvement in FY10 the rise in reserves was relatively modest at US\$ 1.3 billion in FY09.

The difference between the two years is largely explained by the difference in the current account. In FY09 while the current account had contracted by 33.2 percent it was still quite large (US\$ 9.3 billion) in absolute terms. In FY10, not only the current account contracted further by 62.1 percent, it became quite small in absolute terms as well. Thus even as there was not much difference in the financial accounts between the two years the build up in the reserves was significantly higher in FY10.



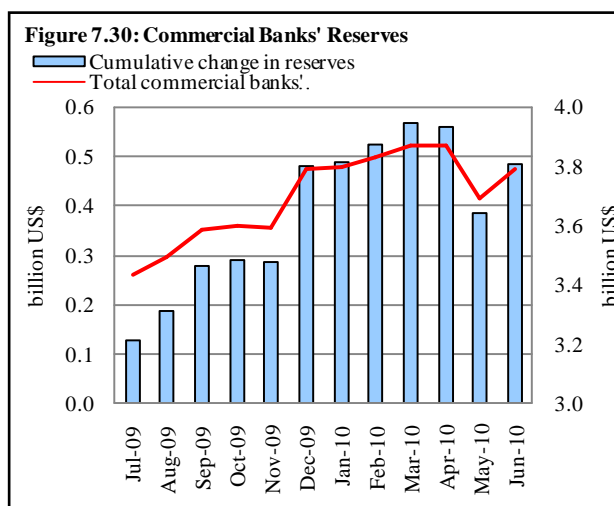
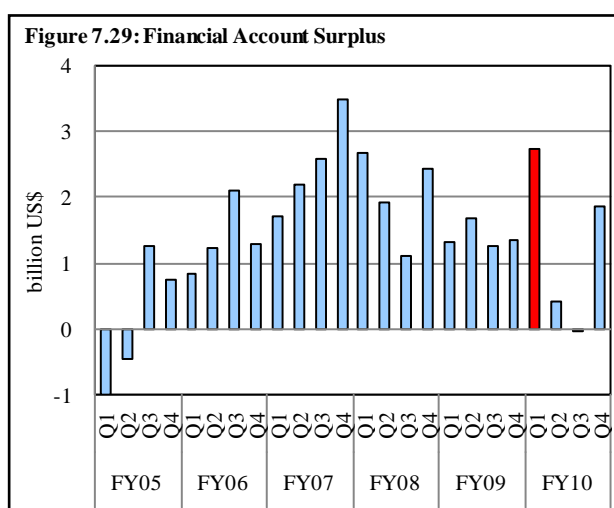
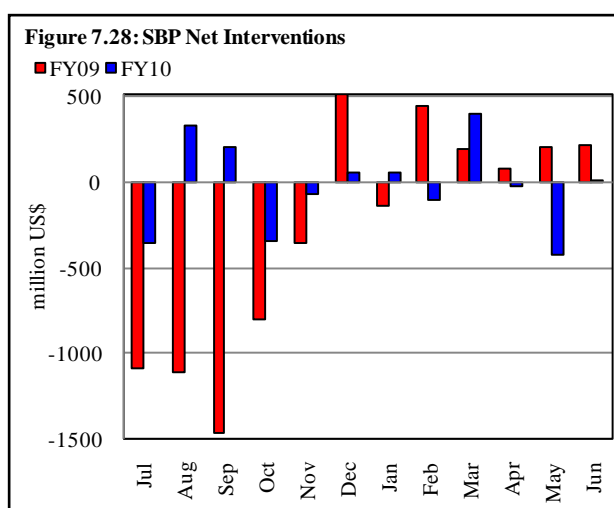


Most of the increase in the reserves during FY10 was on account of the rise in the SBP reserves which increased by US\$ 3.6 billion while commercial banks' reserves recorded relatively small increase of US\$ 0.46 billion. Besides IMF inflows, SDR allocations and funds received on account of the logistic support, SBP reserves also benefited from the discontinuation of market support for oil related payments. These payments had earlier consistently drained SBP reserves and were responsible for severe depletion of reserves in FY08.

It may be recalled that in order to ward off speculative attacks on the domestic currency, SBP started providing hard currency for oil related payments in Nov 2004. However, as part of the structural adjustment program agreed with the IMF, beginning Feb 2009, SBP gradually withdrew this support. Entire oil payments were transferred to inter-bank in Dec 2009. As can be seen from the figure this resulted in significant decline in the SBP net market interventions (sales – purchases) which declined from US\$ 3.3 billion in FY09 to US\$ 263 million in FY10 (see **Figure 7.28**).

Quarterly analysis of the forex reserves indicate that more than half of the full year increase in the reserves was realized in the first quarter of FY10. During this quarter not only the current account deficit was just US\$ 586 million but the financial account surplus was also one of the highest in recent years (see **Figure 7.29**). As discussed earlier, the surplus in the financial account owed to US\$ 1.2 billion program loan received from the IMF and enhancement of the SDR quota. It may be pointed out that though the SDRs are accounted for as reserves they are actually an asset which a country can exchange for a hard currency in time of difficulty. The country that is willing to exchange SDRs for the hard currency usually charges a fee (mark-up) for this exchange. Thus SDRs are more of notional reserves.

In contrast to the Q4-FY10, in Q2-FY10 not only the current account deficit increased but the surplus in the financial account also decreased substantially, as a result, some deterioration in the reserves was observed



**Table 7.13: Overall Reserves as per BOP- BPM-5**

million US Dollar

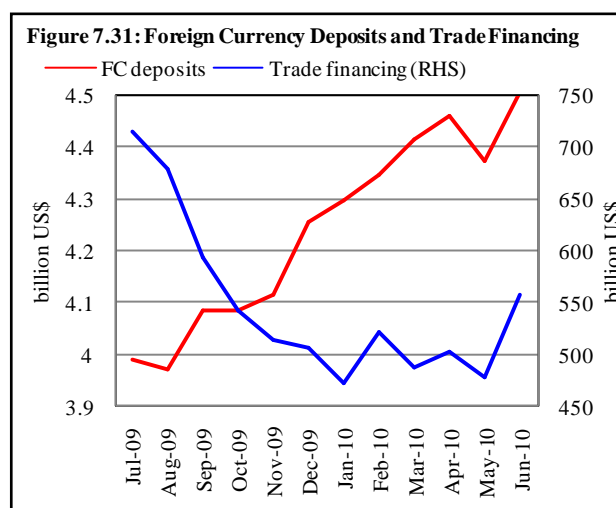
	FY09				Total		FY10*				Total
	Q1	Q2	Q3	Q4	FY09	Q1	Q2	Q3	Q4	FY10*	
<b>Opening balance</b>	<b>11,510</b>	<b>7,975</b>	<b>9,718</b>	<b>10,381</b>	<b>11,510</b>	<b>12,038</b>	<b>14,301</b>	<b>14,543</b>	<b>13,736</b>	<b>12,038</b>	
<b>Inflows</b>	<b>12,227</b>	<b>14,740</b>	<b>11,549</b>	<b>12,802</b>	<b>51,318</b>	<b>13,562</b>	<b>12,383</b>	<b>10,721</b>	<b>15,086</b>	<b>51,752</b>	
Exports of goods	5,711	4,379	4,231	4,800	19,121	4,620	4,678	5,025	5,309	19,632	
Export of services	1,133	941	777	1,255	4,106	838	1,021	1,234	2,055	5,148	
reimbursement logistic support	365	0	100	447	912	0	0	349	945	1,294	
Income	210	298	185	181	874	106	139	187	130	562	
Workers' remittances	1,879	1,761	2,018	2,153	7,811	2,331	2,199	2,021	2,355	8,906	
Kerb market Purchases	0	0	0	0	0		0	0	0	0	
Foreign direct investment	1,117	1,234	691	678	3,720	477	541	536	647	2,201	
Foreign portfolio investment	-171	7	-254	-93	-511	248	62	146	132	588	
Euro / Sukuk Bond	0	0	0	0	0		34	0	42	76	
Loan disbursements	860	4,470	1,196	2,130	8,656	1,972	1,604	582	2,646	6,804	
Official	715	4,061	883	1,933	7,592	1,817	1,512	553	2,452	6,334	
Long-term loans	715	3,460	795	1,888	6,858	1,817	1,512	232	2,204	5,765	
Program loans	493	3,273	633	1,618	6,017	1,616	1,255	54	1,778	4,703	
IMF	0	3,050	0	852	3,902	1,199	1,199	0	1,132	3,530	
IDA/IBRD/IDB	0	0	485	224	709	266	56	54	176	552	
ADB	493	100	96	542	1,231	151	0	0	470	621	
Saudi Loan	0	123	52	0	175	0	0	0	0	0	
Project & food loans	222	187	162	270	841	201	257	178	426	1,062	
Short-term including	0	601	88	45	734	0	0	321	248	569	
IDB	145	409	313	197	1,064	155	92	29	194	470	
Private un-guaranteed	0	0	0	0	0	0	0	0	0	0	
Privatization proceeds	100	59	129	350	638	46	186	245	296	773	
Official grants	1,388	1,591	2,576	1,348	6,903	2,924	1,919	745	1,474	7,062	
Other receipts	1,388	1,591	2,576	1,348	6,903	2,924	1,919	745	1,474	7,062	
<b>Outflows</b>	<b>15,762</b>	<b>12,997</b>	<b>10,886</b>	<b>11,145</b>	<b>50,790</b>	<b>11,299</b>	<b>12,141</b>	<b>11,528</b>	<b>13,482</b>	<b>48,450</b>	
Imports of goods	10,229	8,077	6,276	7,165	31,747	7,429	7,656	7,367	8,603	31,055	
Imports of services	2,392	2,021	1,389	1,685	7,487	1,556	1,852	1,603	1,814	6,825	
Interest payments	440	656	382	435	1,913	268	441	351	391	1,451	
Amortization of official loans	561	331	303	405	1,600	352	371	476	408	1,607	
Profit and dividends	480	481	332	404	1,697	183	251	180	355	969	
Purchase of crude oil /Gas	415	421	436	397	1,669	331	337	345	376	1,389	
Principal repaid on private loans	112	103	131	116	462	137	88	99	112	436	
Foreign exchange liabilities liquidated	265	544	55	100	964	183	701	5	300	1,189	
Other Payments	868	363	1,582	438	3,251	860	444	1,102	1,123	3,529	
<b>Gross reserves at end of period</b>	<b>7,975</b>	<b>9,718</b>	<b>10,381</b>	<b>12,038</b>	<b>12,038</b>	<b>14,301</b>	<b>14,543</b>	<b>13,736</b>	<b>15,340</b>	<b>15,340</b>	
<b>CRR</b>	<b>832</b>	<b>727</b>	<b>745</b>	<b>728</b>	<b>728</b>	<b>779</b>	<b>808</b>	<b>845</b>	<b>841</b>	<b>841</b>	
Foreign currency cash holding	286	434	575	419	419	548	781	108	154	154	
<b>Sinking fund</b>	<b>304</b>	<b>64</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
Net reserves of SBP	5,150	7,042	7,708	9,529	9,529	11,761	12,055	11,188	13,112	13,112	
<b>DMB reserves without sinking fund &amp; includes CRR</b>	<b>2,521</b>	<b>2,612</b>	<b>2,673</b>	<b>2,509</b>	<b>2,509</b>	<b>2,540</b>	<b>2,488</b>	<b>2,548</b>	<b>2,228</b>	<b>2,228</b>	

\*Provisional

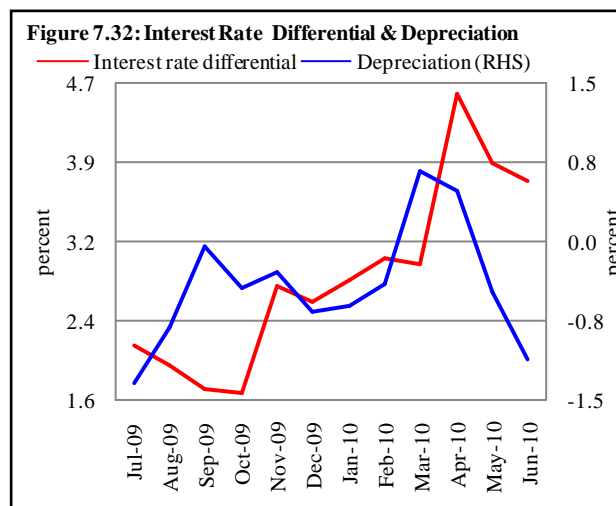
during Q2 and Q3 of FY10. In Q4-FY10, Pakistan again received around US\$ 2 billion on account of the logistic support and 4th tranche of the IMF program loan, which pushed the reserves to record peak of US\$ 16.9 billion. For detail of inflows and outflows during the year (see **Table 7.13**)

As against the SBP reserves, commercial bank's reserves increased by US\$ 0.46 billion during FY10 against slight decrease of US\$ 0.12 million in the previous year (see **Figure 7.30**). Commercial banks' reserves benefited from record US\$ 8.9 billion inflow of remittances and fall in loans against FE25 deposits. These helped commercial banks' cope with over US\$ 10.0 billion worth of oil imports during FY10.<sup>16</sup>

The expectations of depreciation of the domestic currency in H1-FY10 following the announcement of the schedule of withdrawal of the oil support led not only to increase in the foreign currency deposits but also slowed down the conversion of foreign currency deposits to rupees (see **Figure 7.31**). It appears that along with individuals some corporate also favored holding foreign currency accounts as evident from the rise in the foreign currency deposits of OGDC, KESC, Pak Arab Refinery, BP Pakistan, and UN mission etc during this period.



Expectations of depreciation also led to the retirement of the foreign currency loans, which were already depressed on account of fall in interest rate differential between EFS and foreign currency loans (see **Figure 7.32**). This is also evident from the rise in borrowings under EFS. The combined impact of the increase in the deposits and retirement of foreign currency lending supported commercial banks' reserves during H1-FY10. However, as these factors subsided, some deterioration in the commercial banks' reserves was recorded in the latter half of FY10. All in all inter-bank market has exhibited reasonable maturity given that shifting of oil payments to it went quite smoothly without causing any disruptions.



### Reserve Adequacy

During FY10 Pakistan's reserves adequacy improved both, when measured in terms of weeks of imports and as a ratio of short-term debt and liabilities. The improvement was more pronounced in the H1-FY10 as fall in trade deficit and improvement in the reserves pushed up reserves in terms of number of weeks of imports from 21.1 weeks as of end June FY09 to 29 weeks as of end Dec FY10. However, in the latter half of FY10 imports started to grow once again and accumulation in reserves slowed. When measured as a ratio of short-term debt and liabilities, reserves adequacy improved from

<sup>16</sup> As per exchange record (SBP) data

6.0 percent as of end June FY09 to 7.8 percent in FY10 this decline was primarily due to rise in the reserves in FY10 as short-term debt and liabilities increased only by US\$ 16.0 million during the year.

### 7.5 Exchange Rate

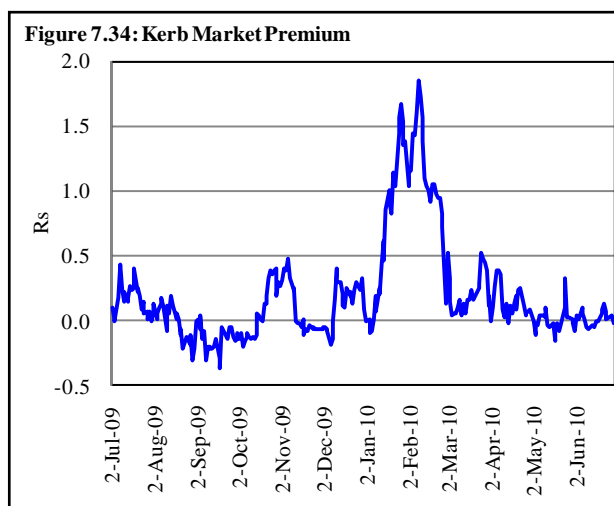
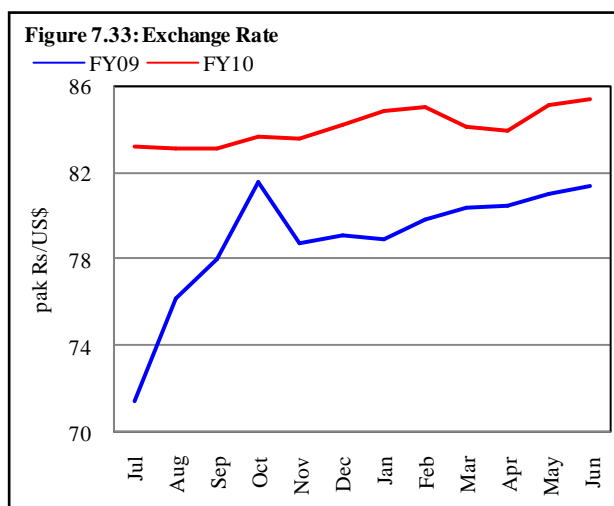
During FY10 Pakistan's exchange rate vis a vis US dollar remained relatively stable and rupee depreciated by 4.8 percent during the year against 15.7 percent depreciation recorded in the previous year (see **Figure 7.33**).

Although relative stability of the rupee despite reduced market support from SBP is remarkable, gradual depreciation of the rupee does indicate persistent pressures in the foreign exchange market throughout the year.

At the beginning of the year, rupee came under pressure due to expectations of possible shortage of US dollars due to shifting of the oil payments, however, as news on the economic front were good and country was getting inflows these expectations of depreciation soon died out.

In December, rupee again came under pressure as demand for the US dollars increased to cover Hajj related expenses and SBP shifted remaining of the oil payments. In Jan-Feb rupee yet again faced renewed speculative pressures, which were very severe causing kurb premium to touch almost to Rs. 2.0 (see **Figure 7.34**). Pressures on the rupee during Dec-Jan were also strong probably due to rise in the trade deficit, slowdown in remittance due to disruption in economic activity following Ashura bomb blasts etc. Severity of the pressures on the rupee can be gauged from the fact that out of 4.8 percent depreciation around 3.2 percent depreciation was recorded in Dec-Jan. Rupee however, regained some of its lost ground in Feb-Mar before slipping again. With SBP no more intervening in the forex market to support oil payments, the exchange rate of the country has become more representative of demand and supply conditions in the forex market. This is likely to be helpful in resolving external account imbalances in the future as exchange rate flexibility provides an adjustment mechanism that can reduce excesses in the external accounts.

Rupee's performance against other major currencies during FY10 basically reflected the performance of these currencies in the international market. Euro and Pound exhibited weakness primarily due to the poor performance of their respective economies, while weakness in US economy lent support to Japanese Yen.



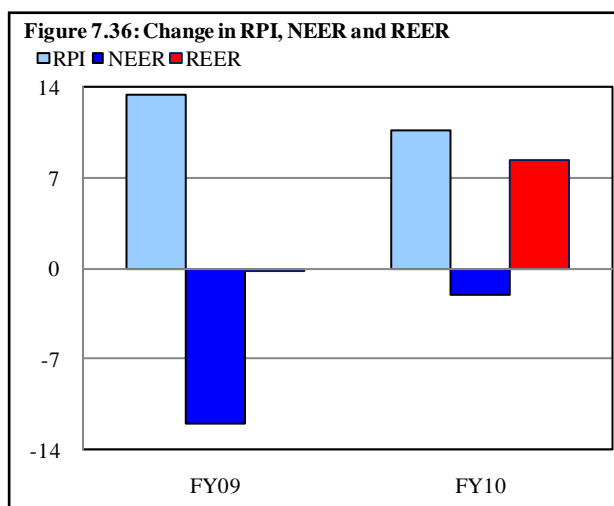
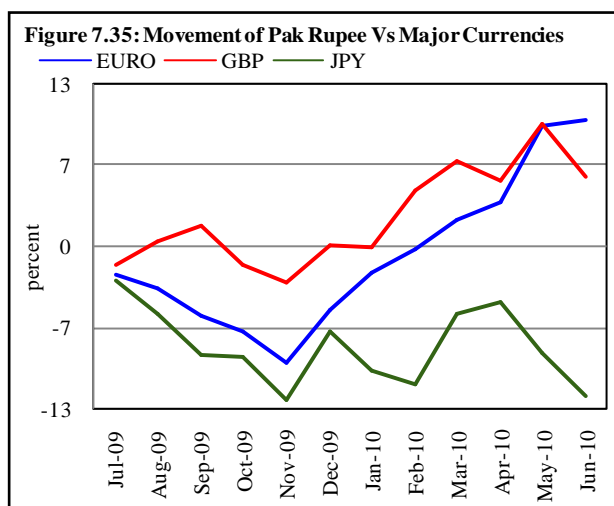
Slow growth, unemployment, and high budget deficit plagued the UK economy during FY10 causing the pound sterling to weaken. In the Euro area, in addition to the slow economic recovery the area was hit by threat of default by the Portugal, Ireland, Greece and Spain (PIGS). The flight to safety resulted in fall in the demand for Euros. These factors caused rupee to appreciate against both, the pound and Euro. Pak rupee appreciated 5.2 percent against the pound and 10.1 percent against euro.

In contrast to pound and the Euro, Japanese yen strengthened in the international market during FY10. As the prospects of sustained recovery in the US economy faded, and FRB announced continuation of the easy monetary policy, Investment in the US securities became unattractive and investors instead opted for carry trade for which Japanese yen which is available at almost zero markup is ideally suited. The increased demand for the Japanese currency appreciated yen against the US dollar and consequently rupee depreciated against the yen by 12 percent during the year (see **Figure 7.35**). The appreciation of the rupee against the euro and the pound could have negative consequences for country's exports not only by making them costlier in countries of these currencies but also by

contributing to the appreciation of the real effective exchange rate. Indeed, despite depreciation against the dollar and the yen, Pakistan's currency appreciated by 8.3 percent in real terms during FY10 against 0.3 percent depreciation recorded in the previous year.

### Real Effective Exchange Rates

As can be seen from the (see **Figure 7.36**), Pakistan's nominal effective exchange rate depreciated by just 2.1 percent during FY10 against 12.0 percent in FY09 this more than compensated the lower rise in the relative price index compared to previous year thus resulting in significant appreciation of the real effective exchange rate.



**Table 7.14: Summary of Trade Account**

	FY07	FY08	FY09	FY10
<b>Absolute value (billion US Dollar)</b>				
Trade deficit	13.6	20.9	17.1	15.3
Exports	17.0	19.1	17.7	19.3
Imports	30.5	40.0	34.8	34.7
<b>As percent of GDP</b>				
Trade deficit	9.5	12.8	10.6	8.7
Exports	11.9	11.6	10.9	11.0
Imports	21.4	24.4	21.5	19.7
<b>YoY growth</b>				
Trade deficit	11.8	54.2	-18.1	-10.3
Exports	3.2	12.2	-7.2	9.4
Imports	6.9	30.9	-12.9	-0.3

## 7.6 Trade Account<sup>17</sup>

Pakistan's trade deficit continued to narrow for the second consecutive year, reaching US\$ 15.3 billion. Unlike the preceding year, in which the entire improvement in trade account was on account of a fall in imports, in FY10 it was the remarkable YoY growth of 9.4 percent in exports that led to 10.3 percent YoY contraction in the trade deficit. As a result, trade deficit to GDP improved to 8.7 percent in FY10 from 10.6 percent in FY09 (see **Table 7.14**). Furthermore, while the increase in exports largely owed to high quantum of primary commodities, fall in the import bill was mainly a result of lower prices (see **Table 7.15**).

Exports during FY10 staged a welcome recovery in absolute terms. The main impetus to exports growth came from primary commodities such as rice, cotton, fruits and vegetables coupled with strong performance of jewelry and chemicals & pharmaceuticals. Exports of manufactured and semi manufactured goods also posted positive growth on account of some revival in global demand (see **Figure 7.37**).

Analysis of exports shows that entire growth in the exports was concentrated in H2-FY10, which more than offset the fall of 3.9 percent recorded in H1-FY10 (see **Figure 7.38**). This growth in exports was broadly in line with the revival in external demand and the improved domestic industrial production<sup>18</sup> (see **Box 7.3**).

As far as import performance is concerned, on the one hand, a revival in domestic economic activity

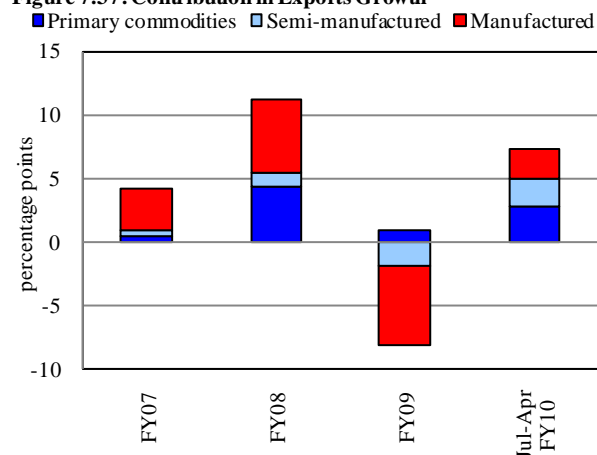
**Table 7.15: Components of Improvement in Trade Account**  
billion US Dollar

	Exports		Imports	
	FY10	FY09	FY10	FY09
Price impact	-0.5	-0.3	-0.4	-1.9
Quantum impact	1.4	-0.7	0.7	-0.9
Others	0.8	-0.4	-0.4	-2.3
<b>Total change</b>	<b>1.7</b>	<b>-1.4</b>	<b>-0.1</b>	<b>-5.1</b>

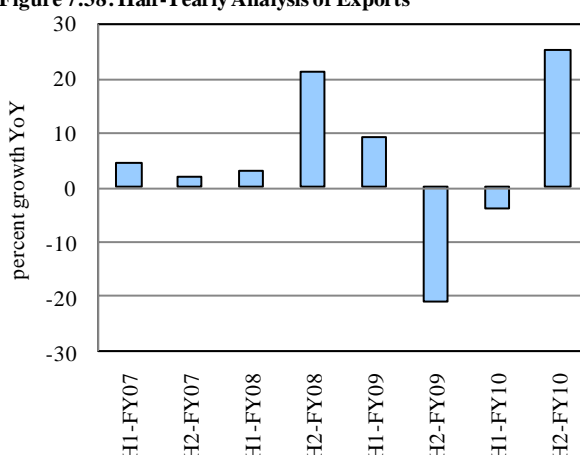
**Table 7.16: Imports Related Indicators**  
percent

	FY07	FY08	FY09	FY10P
GDP growth rate	6.8	3.7	1.2	4.1
Industry growth rate	8.8	1.4	-1.9	4.9
REER app(+)/dep(-)	0.8	-2.3	-0.3	8.3
Private sector credit growth	14.7	16.5	0.7	3.9
Wheat imports (million US\$)	41.5	860.0	1078.6	40.8
<b>Import growth rate</b>	<b>6.9</b>	<b>30.9</b>	<b>-12.9</b>	<b>-0.3</b>

**Figure 7.37: Contribution in Exports Growth**



**Figure 7.38: Half-Yearly Analysis of Exports**



<sup>17</sup> The discussion on this section is based on custom data provided by the Federal Bureau of Statistics (FBS) which may vary from trade numbers compiled by the SBP.

<sup>18</sup> LSM grew at rate of 8.3 percent YoY during Jan-May FY10, whereas marginal growth of 1.4 percent was recorded during H1-FY10.



coupled with appreciation of exchange rate in real terms contributed to a rise in import bill (see **Table 7.16**); on the other hand, a sharp decline in wheat imports eased pressures on the import bill. The relatively stable international commodity price index during FY10 also kept in check the import bill (see **Figure 7.39**).

*Persistence in improvement of the trade account*, however, depends on the rate at which exports and imports grow during FY11. To improve the country's export performance, the need is to address issues hampering export's competitiveness. Various incentives were announced in the Strategic Trade Policy Framework in 2009-12; the continuation and implementation of these supportive measures is imperative to boost exports. Moreover, market and product diversification is also of utmost importance for the sustainability of exports growth.

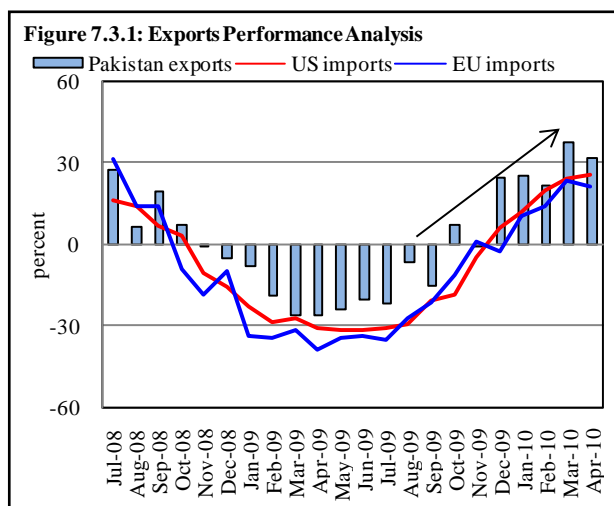
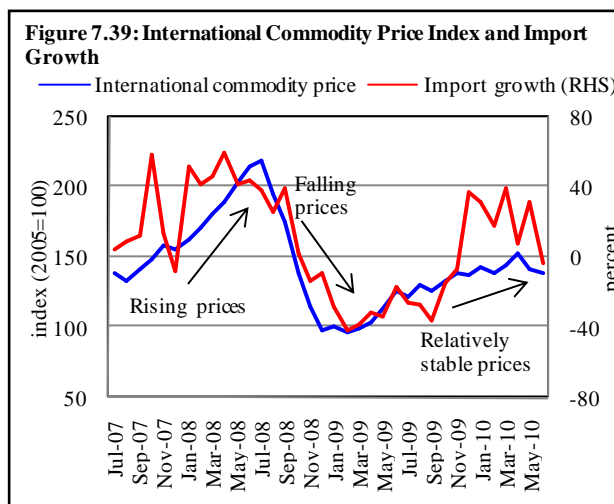
With regard to imports, the revival in global commodity prices, possible import of a key commodity like cotton and rise in imports for reconstruction related activities following the devastating floods, are likely to inflate the import bill going forward.

### Box 7.3: Exports Performance Amid Improved External Demand

Global trade recorded a significant contraction during FY09 owing to overall economic slowdown. The recession that hit the world's developed countries spilled over to the emerging countries owing to market integration. The exports of many regional emerging countries including Pakistan plummeted during FY09 owing to low demand from industrialized countries like US and EU. However with a gradual improvement in external demand, exports started to recover.

Monthly analysis of export performance reveals an improvement in export growth from December 2009 which was broadly in line with the rising US and EU imports (see **Figure 7.3.1**). EU agreement to increase market access for Pakistan through the immediate and time-limited reduction of import duties is likely to facilitate Pakistan exporters going forward.

Revival in external demand bodes well, not only for Pakistan's exports but exports of some of the emerging economies also started to recover. The export performances of regional competitors show a strong improvement in FY10 compared to subdued performance of FY09 (see **Table 7.3.1**). Going forward, exports of these countries are likely to rise as according to the World Economic Outlook, global recovery has evolved better than expected and the world output is expected to rise by



**Table 7.3.1: Exports Performance of Emerging Economies**  
(growth in percent)

	China	India	Indonesia	Malaysia	Pakistan	Thailand
FY09	-2.3	-9.7	-9.0	-13.3	-7.2	-6.2
FY10	5.0	18.9	16.0	8.1	9.6	9.5

more than 4.0 percent during CY10.

### 7.6.1 Exports

Exports posted a remarkable growth of 9.4 percent YoY during FY10, in contrast to a 7.2 percent YoY fall observed during last year. In absolute terms, exports touched the level of US\$ 19.3 billion, surpassing the target of US\$ 18.9 billion set for the year (see **Figure 7.40**). Annual analysis of total exports indicates that exports were consistently moving upwards till FY08, but due to global economic recession compounded with domestic issues, exports deteriorated in FY09. However with the improvement in external demand, exports accelerated in FY10.

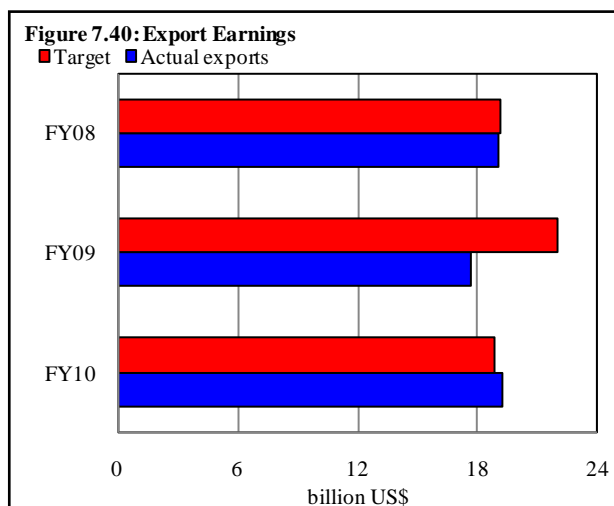
#### Direction of Exports

The trend in market diversification that was set out in FY09 further gathered momentum in FY10. As far as contribution in export growth is concerned, China remained at top (see **Table 7.17**). However, the high export to China could be a transient phenomenon as the growth was mainly driven by cotton-related, low-value added products, which resulted from low cotton production in China. In case of United Kingdom, exports of textile and apparel products increased reflecting the relative improvement in UK's textile demand. Regarding rising contribution of Afghanistan, exports of cement and petroleum products, mainly high speed diesel, increased. High exports of gold jewelry contributed to a rise of UAE's share in Pakistan's overall exports. Going forward, African countries are potential big markets for products like cement, automobiles, and pharmaceutical.

#### Composition of Rise in Export Proceeds

The category-wise analysis of export earnings during FY10 reveals that main impetus came from agri-based commodities such as non-basmati rice, cotton yarn, raw cotton, fruits, and vegetables. Improved production of these commodities played an important role in YoY export growth during FY10 (see **Table 7.18**). The growth in agri-based commodities was complimented well by strong performance of jewelry, chemical & pharmaceutical and petroleum products. Readymade garments exports also displayed a decent performance during H2-FY10 (see **Table 7.19**).

As in the previous year, *rice* was one of the key drivers of export growth during FY10. However a comparison of both years show that unlike the preceding year in which prominent factor was the price impact that led to overall increase in rice exports, it was the record quantum export during FY10. Had export unit values of rice stayed at their FY09 levels, export proceeds would have been much higher (see **Table 7.20**).



**Table 7.17: Contribution in Export Growth**

percentage points

	FY06	FY07	FY09	FY10 (Jul-Apr)
China	0.68	0.64	-0.67	3.12
United Kingdom	0.34	0.47	-1.66	1
Afghanistan	-1.88	2.3	0.28	0.65
UAE	0.32	4.16	-4.49	0.39
Turkey	0.52	0.27	-0.54	0.53
USA	-0.06	-2.73	-5.13	-0.24
Other	3.28	7.09	5.01	1.83
<b>Overall growth</b>	<b>3.2</b>	<b>12.2</b>	<b>-7.2</b>	<b>7.28</b>

**Table 7.18: YoY Growth in Production and Exports of Agri-based Commodities**

	Production	Export quantity	Export value
Rice	-3.1	47.1	9.7
Cotton	5.3	104.6	124.0
Mango	6.9	19.1	30.6
Citrus	3.3	97.9	77.6
Potato	2.3	19.3	20.6
Grapes	1.3	50.5	114.1

**Table 7.19: Export Growth Composition Analysis**

Value: million US Dollar, growth: percent

	FY10				YoY growth	
	Value	Growth	Abs Δ	Quantum impact	Price impact	H1-FY10 H2-FY10
<b>Major drivers of export growth</b>						
Non-basmati rice	1317.9	44.4	405.0	662.0	-256.9	4.9 92.4
Jewelry	645.6	126.0	360.0			185.1 94.0
Cotton yarn	1417.2	27.1	302.4	231.7	70.8	30.9 23.0
Art silk and synthetic textiles	446.6	60.6	168.5	97.0	71.5	61.5 59.9
Chemicals and pharmaceuticals	737.6	22.0	133.2			8.9 36.9
Petroleum products	560.6	24.7	111.0	127.1	-16.1	-17.7 113.4
Raw cotton	195.7	124.0	108.3	91.4	16.9	127.6 114.3
Fruits	238.7	51.9	81.5	72.2	9.3	68.7 38.8
Readymade garments	1283.2	4.3	53.2	-57.5	110.7	-3.6 12.3
Other textile material	258.3	24.1	50.1			1.7 49.1
<b>Total exports</b>	<b>19382.5</b>	<b>9.4</b>	<b>1694.5</b>	<b>1376.2</b>	<b>-488.9</b>	<b>-4.0 25.2</b>

In terms of quantum, record 4.0 million MT rice was exported with major portion stemming from exports of non-basmati rice. Weak rice crop in India and Philippines, extension of preferential duty to Pakistan's Irri-6 rice by Kenya and most importantly, better-than-targeted domestic production led to remarkable exports of rice. In terms of market share, exports to Kenya increased probably reflecting the benefit of extension in preferential duty. Weak rice crop in Philippines had two positive impacts i.e. Pakistan exporters not only exported rice to Philippines but also to Singapore, which has remained the major importer of Philippines rice. Exploration of new markets particularly African countries such as Somalia, Niger, Nigeria, Cameroon and Uganda was another factor behind the notable performance of rice exports. Regarding *future outlook*, keeping in view the state of carry-over stock and production forecasts in Pakistan and other rice exporting countries, exports may not be as high as recorded in FY10.

**Table 7.20: Composition of Rice Exports**

Impact: million US Dollar, Unit value: US\$/MT

	FY09			FY10		
	Quantum impact	Price impact	Unit value	Quantum impact	Price impact	Unit value
<b>Basmati rice</b>	153.9	155.3	1098.6	13.1	-225.0	870.5
<b>Other rice</b>	-38.6	107.1	520.1	662.0	-256.9	435.3

The rise in exports of *fruits* is attributed to both volume as well as value. The main impetus came from mangoes, dates, kinos and edible nuts. Increased demand of mangoes and kinos from UAE, Saudi Arabia, Germany and Russia led to an impressive growth of fruit exports.

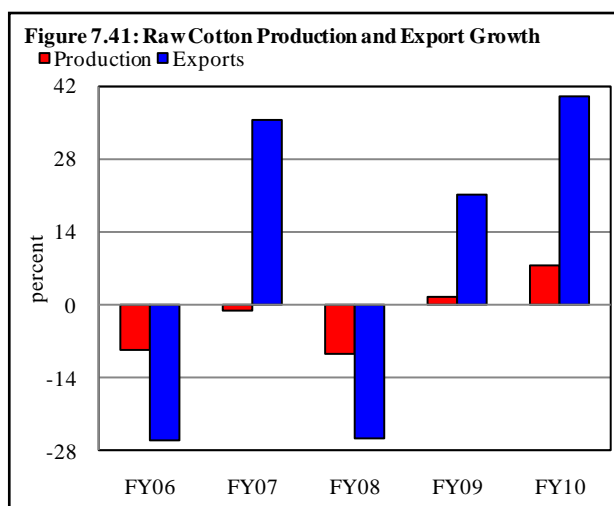
*Meat* exports also rose in terms of quantum during FY10. The major contribution emerged from fresh meat of goats. The demand from Saudi Arabia was met well by Pakistani exporters as exports to Saudi Arabia doubled in absolute terms. High demand from Saudi Arabia is probably due to the ban imposed by the Saudi government on meat imports from Ethiopia. Apart from goat meat, exports of sheep meat also increased. Another development was the MoU signed between Pakistan and Malaysia according to which Malaysian International Halal Integrity (IHI) group will assist to setup a Halal standard board and accreditation body in Pakistan. This MoU is likely to facilitate exporters as improved quality and authentication is likely to improve export opportunities in many untapped markets. *Going forward*, meat exporters may face some difficulty due to floods that resulted in loss of

livestock. Apart from flood impact, anecdotal evidence suggests that smuggling of live animals to Iran and direct export of live animals is likely to hit the downstream industry of meat. It is important to mention that government initially imposed a ban on livestock exports in 2004; however the government lifted the ban in May 2009.

### Textile Exports

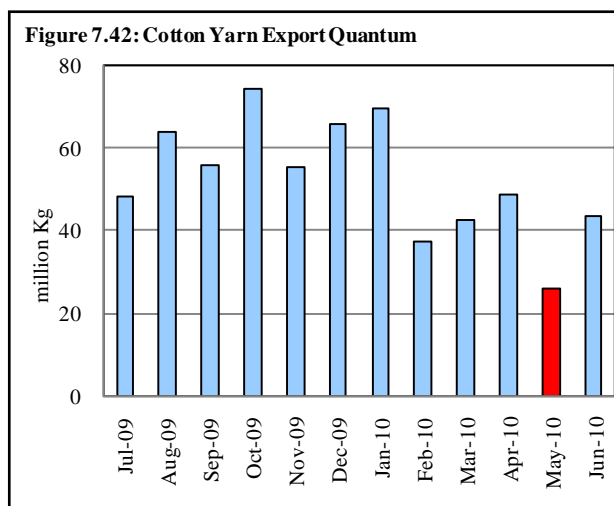
Textile exports increased by 7.0 percent YoY during FY10 in contrast to a 9.4 percent decline in the same period last year. This improvement largely emanated from the global economic recovery that translated into improved textile and clothing demand from country's major export markets of EU and the US.<sup>19</sup> In addition, the shortfall in cotton production in China<sup>20</sup>, better domestic cotton crop<sup>21</sup> during FY10 and depreciation of rupee vs. US dollars, at a time when currencies of other competitors recorded appreciation, also boosted country's textile exports during FY10 (see **Table 7.21**). In overall terms 68 percent of the total increase in textile exports was contributed by low-value added categories namely, cotton yarn, raw cotton and synthetic textiles. The rise in these categories exports, which was mainly due to YoY increase in export quantum, was largely a function of cotton production shortfall in China that not only raised the demand for raw cotton and cotton yarn, but also for synthetic textile. The growth observed in *raw cotton* exports was phenomenal during the period under review. This sharp rise of 124.0 percent YoY is attributed to growth in production of raw cotton (see **Figure 7.41**). Production of raw cotton touched the level of 12.7 million bales during FY10. Apart from better domestic production, low production in China proved beneficial for the exporters. Going forward, exports of raw cotton may not be as strong as expected initially due to the recent floods.

*Cotton yarn* exports depicted a decent growth of 27.1 percent YoY during FY10. However, the increase in yarn exports led to domestic



**Table 7.21: Currencies Movement (app/dep)**

	Vs. Dollar		Vs. Euro	
	2009	Jan-May 2010	2009	Jan-May 2010
Sri Lanka	2.83	-1.54	0.47	14.9
Bangladesh	3.44	0.14	1.07	16.95
China	0.25	0.14	-2.05	16.95
Pakistan	-5.61	-0.25	-7.78	16.5
India	7.14	0.37	4.68	17.23



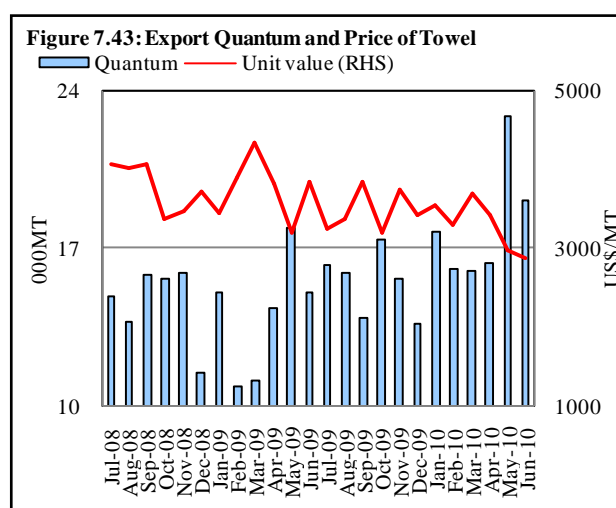
<sup>19</sup> The anecdotal evidence suggests that in addition to fulfilling retail demand, concerns for depleting inventories among foreign buyers also had a significant contribution in improving textile and clothing exports to these destinations.

<sup>20</sup> In FY10, cotton production in China declined by 14.4 percent YoY.

<sup>21</sup> Cotton production increased from 12.06 million bales to 12.70 million bales during FY10.

shortages forcing up prices.<sup>22</sup> This led the government to cap cotton yarn exports in order to ensure availability of yarn at stable prices in the local market as well. As a result of this measure, exports of yarn started falling from January 2010 onwards. The government decision to impose a 15 percent regulatory duty on yarn exports in May 2010 which decelerated the exports of yarn (see **Figure 7.42**).

Exports of high value added categories displayed a mixed scenario in terms of price and quantum increase (see **Table 7.22**). The moderate YoY increases in *knitwear* and *ready-made garments* exports were an



**Table 7.22: Major Textile Exports Price & Quantum Impact**  
million US Dollar

	FY09			FY10		
	Due to		Absolute Δ	Due to		Absolute Δ
	Absolute Δ	Quantum	Price	Quantum	Price	
<b>Textile group</b>	<b>-998.8</b>					<b>671.6</b>
<i>Of which</i>						
Raw cotton	17.2	28.0	-10.7	108.3	91.4	16.9
Cotton yarn	-186.2	-72.9	-113.3	302.4	231.7	70.8
Cotton fabrics	-55.3	-134.9	79.6	-136.7	-149.8	13.1
Knitwear	-91.1	126.1	-217.2	20.3	-49.7	69.9
Bed wear	-168.4	-37.8	-130.6	-11.1	-4.9	-6.1
Towels	29.8	78.4	-48.5	33.2	124.0	-90.8
Readymade garments	-262.6	-420.0	157.3	53.2	-57.5	110.7
Art silk and synthetic textiles	-0.1	-0.1	0.0	168.5	97.0	71.5

outcome of increases in export prices. Reportedly, the producers of these categories were forced to raise export unit prices due to rising domestic cost of production led by sharp increases in the domestic cotton yarn prices and rising power tariffs (see **Table 7.23**)

Foreign buyers of these categories were reluctant in accepting these prices; however, the rising cost of production in China and Bangladesh reduced the competitiveness of other competitors also. This scenario in the presence of recovering demand from the major markets augurs well for country's clothing exports.

**Table 7.23: Cost of Production**

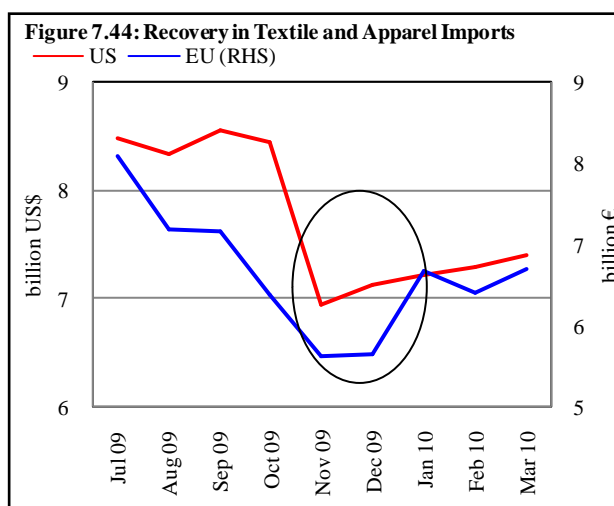
	FY09	FY10
Cotton yarn index	109.5	119.8
Electricity ind. supply tariff index	141.4	173.4
<b>Unit value (US\$/Doz)</b>		
Readymade garments	42.2	46.5
Knitwear	15.7	16.7

The performance of *towel* exports presented an altogether different scenario. The 5.2 percent YoY increase in this category was recorded on the back of strong quantum surge, while its export unit values recorded fall during this period (see **Figure 7.43**). Most of this increase was contributed by

<sup>22</sup> The average price index of cotton yarn during FY10 was 138.3 as compared with average cotton yarn index of 104.2 in FY09

rising demand from the US market<sup>23</sup> (see **Table 7.24**). Further, Pakistan's towel manufactures are in a better competitive position; since towel exported by Pakistan generally use 16- count coarse yarn, in the production of which Pakistan has strong edge. Another development was the reported closures of towel industry in the EU, which resulted in a shift of demand for this product to China, India and Pakistan.

*Bed wear* exports recorded a marginal 0.6 percent YoY fall during FY10. This was due to reported slow recovery in demand for this category from both the EU and the US market. However, from Q1-CY10 demand for this category has started to improve in the US market. Bed wear exports are classified into printed



**Table 7.24: US Market Towel Import Analysis**

percent

	CY2009			Q1-CY10		
	YoY Growth	Share	UV (World=100)	YoY Growth	Share	UV (World=100)
India	-2.85	30.4	118	10.37	30.2	126
China	1.88	22.6	141	8.8	29.08	130
Pakistan	-6.55	22.5	64	36.4	21.1	62

and non-printed types. Pakistan's performance remained well in the non-printed segment both in the US and the EU markets during FY10. It is important to note, however, that Pakistan is a producer of low-end products in this category<sup>24</sup> and faced tough competition from China in the US market for low-end products in CY2009. However, the situation changed in Q1-CY10, where demand for this category most probably shifted towards Pakistan (see **Table 7.25**). Reportedly China is gradually moving out from the low-end home textile segment, leaving room for Pakistan. In the EU market, the demand for home textile was shrinking during CY 2009, however, Pakistan's exports performed better, because of the positive impact of the removal of antidumping duties. In overall terms the recovery in demand is likely to cause an expansion in Pakistan's bed wear exports *going forward*.

**Table 7.25: Bed Wear Export Market Analysis**

percent

	US Market						EU Market	
	Printed			Non-printed			Printed	Non-printed
	value change	Shares		value change	Shares		value change	
	CY 2009	Q1-CY10	Q1-CY10	CY 2009	Q1-CY10	Q1-CY10	CY 2009	CY 2009
India	-9.3	41.7	5.5	-44.5	46.3	25	-9.6	13.3
China	6.4	38.8	32.3	-35.8	14.3	34.6	5.7	0.5
Pakistan	-26.5	-12.5	51.2	56.8	8	26.9	1.2	10.3
World	-13.4	4.3	100	-24.1	22.4	100	-1.1	-1.9

<sup>23</sup> The towels exports to the US recorded 8 percent YoY rise to the US during Jul-Feb FY10.

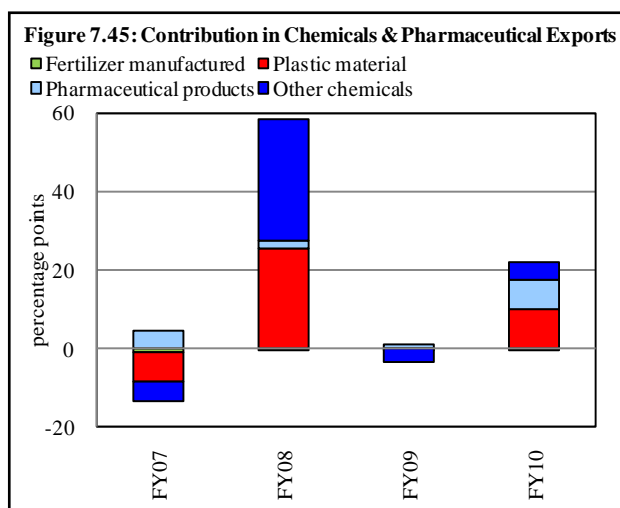
<sup>24</sup> The unit values for non-printed type were 211/unit for India, whereas this was 98/unit for China and 87/Unit for Pakistan during Q1-CY10.



### International Comparison of Textile & Apparel Exports

The textile imports of US and EU started recovering from December 2009 onwards after decelerating during initial months of FY10 (see **Figure 7.44**). The recovery in imports of these countries is welcomed by the major exporters of textile and apparel products. The performance of Pakistan's low value products as well as apparel exports has improved in Q3-FY10. The exports of most of the competitors also showed signs of improvement in Q3-FY10 as compared with Q2-FY10 (see **Table 7.26**). It is important to note that the recovery of export demand was stronger in the US market as compared to the EU market, as economic conditions have not stabilized in the latter destination so far. Going forward, the imports of US and EU are likely to increase however there is a risk of a possible slowdown of demand in these developed countries is still present.

**Chemicals & Pharmaceutical** exports posted a growth of 22.0 percent YoY during FY10 with contributions coming from all the sub-sectors of chemical and pharmaceutical (see **Figure 7.45**). Export earnings from pharmaceutical products grew by 38.7 percent YoY during FY10. The surge in pharmaceutical exports is attributed to geographical diversification of markets along with supportive incentives provided by government of Pakistan and SBP.<sup>25</sup> In case of



**Table 7.26: Textile & Apparel Export Performance (Imports to EU and US)**

#### International Comparison

percent

	Textile				Apparel			
	FY09	Q1-FY10	Q2-FY10	Q3-FY10	FY09	Q1-FY10	Q2-FY10	Q3-FY10
<b>USA</b>								
Bangladesh	18.19	24.64	1.85	-0.62	10.8	-11.72	-11.79	-6.05
China	-9.07	-17.15	-1.8	13.92	2.03	-14.38	2.1	13.66
India	-10.4	-16.59	-7.21	15.59	-6.98	-2.85	-11.48	-2.13
Pakistan	-5.79	-3.23	-13.13	4.31	-6.2	-11.3	-16.53	-0.38
Sri Lanka	-21.65	-6.59	-3.36	-6.53	-7.94	-25.3	-26.3	-8.6
<b>World</b>	-9.89	-18.11	-6.45	12.02	-5.21	-19.62	-9.66	2.29
<b>EU</b>								
Bangladesh	0.71	-13.74	-10.59	-6.73	13.16	7.52	-13.95	-14.07
China	-3.26	-13.85	-12.46	8.78	16.51	-3.12	-16.17	-9.17
India	-12.66	-18.89	-14.66	0.32	5.31	5.63	-3.08	-9.67
Pakistan	-6.33	-8.87	-7.94	2.27	4.21	-5.28	-11.82	-11.16
Vietnam	-3.83	4.39	2.99	18.58	4.68	-3.38	-17	-7.74
<b>World</b>	-10.25	-12.13	-9.79	7.58	3.99	-1.55	-12.23	-8.85

other chemicals and plastic material, import demand from India for chemicals like polyethylene and pure terephthalic acid (PTA) led to high exports. On the other hand, exports of Polyethylene terephthalate (PET) to France, Sweden and Poland slowed down as the local plastic industry of EU claimed that imports of certain PET, coming from Pakistan, Iran and UAE are being dumped. State

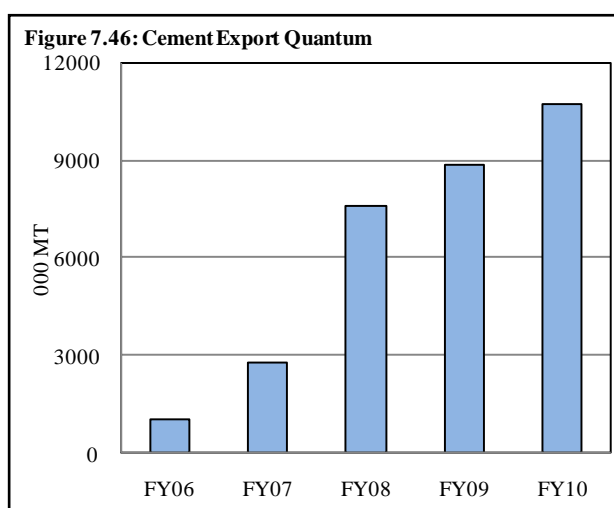
<sup>25</sup> In the Strategic Trade Policy Framework 2009-12, the government announced to zero rate pharmaceutical exports. State Bank of Pakistan also provided Long Term Financing Facility to this sector.

Bank of Pakistan also included Polyethylene terephthalate in the negative list of Export Finance Scheme (EFS)<sup>26</sup>, which is likely to hurt the exports *going forward*.

**Jewelry** exports recorded a phenomenal growth of 123.4 percent YoY during FY10. This surge in exports is attributed to a sharp rise in gold prices and high demand from US and UAE. Exemption of sales tax on imports and local supply of platinum, diamonds, palladium and precious stones also induced bullish sentiments. The role of Pakistan Gems and Jewelry Development Company remained instrumental in promotion and marketing of jewelry products. Category-wise analysis of jewelry shows exports of gold jewelry in particular rose remarkably. It is important to mention that to export gold jewelry, minimum value addition on imported gold is necessary.<sup>27</sup> Anecdotal evidence suggests that a substantial part of gold is being smuggled from Iran and is being exported to UAE.

**Cement** export in terms of quantum continued to grow for the fifth consecutive year (see **Figure 7.46**). High external demand, exploration of new markets and increase in domestic production provided impetus to exporters. The government on its part also allowed inland freight subsidy in order to foster cement exports. As far as domestic production is concerned, it increased by 10.0 percent during Jul-Apr FY10 as compared with a growth of 5.0 percent in Jul-Apr FY09. Exports to usual markets such as Afghanistan, Bahrain, Egypt and Iraq increased. Along with the rising share of these traditional markets, exploration of new markets especially South Africa, Somalia, Sri Lanka

and Sudan bode well for the exporters. An interesting development was the declining share of United Arab Emirates in country's cement exports. This decline is probably attributed to low demand in UAE or may be due to the fact that Saudi authorities lifted ban on cement exports. Saudi Arabia, due to its geographical position, can capture Pakistan's share in Middle Eastern countries *going forward*.



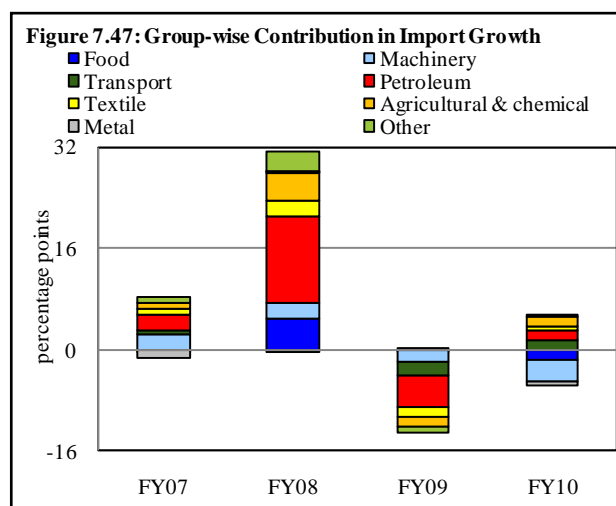
<sup>26</sup> SMEFD Circular Letter No. 09 of 2010, dated 28 June 2010

<sup>27</sup> S.R.O 266(I)/2001 dated 7<sup>th</sup> may 2001, Ministry of Commerce according to which, 4.0 percent on plain gold bangles and chains, 6.0 percent on other plain jewelry and 9.0 on studded or embedded jewelry value addition in imported gold is imperative.

## 7.6.2 Imports

Import recorded a marginal decline of 0.3 percent YoY during FY10 as compared with a sharp fall of 12.9 percent during the same period last year. Composition of this fall in import shows that the decline in imports of food, machinery and metal group offset the positive growth of petroleum, transport, textile and agricultural & chemical groups (see **Figure 7.47 & Table 7.27**).

It is important to note that although the overall quantum impact turned positive in FY10, it was the negative price impact that kept the overall import growth in the negative territory.<sup>28</sup>



**Table 7.27: Import Growth Composition Analysis**

Value in million US Dollar, growth in percent

			Growth	Abs Δ	Quantum impact	Price impact
	FY09	FY10			FY10	
<b>Major commodities recording increase</b>						
of which						
Petroleum products	5513.8	6916.5	25.4	1402.7	1405.6	-2.9
Air craft's, ships and boats	489.2	654.4	33.8	165.2	---	---
Road motor vehicles	923.5	1209.1	30.9	285.6	---	---
Medicinal products	570.8	717.2	25.7	146.4	149.4	-2.9
Fertilizer manufactured	548.0	906.0	65.3	358.1	537.0	-178.9
<b>Major commodities recording fall</b>						
of which						
Wheat un-milled	1078.6	40.8	-96.2	-1037.8	-1043.8	6.0
Petroleum crude	3994.2	3172.4	-20.6	-821.9	-789.0	-32.9
Other machinery	2261.8	1608.9	-28.9	-652.8	---	---
Telecom	961.3	759.3	-21.0	-202.0	---	---
Iron and steel	1405.4	1293.3	-8.0	-112.1	-110.2	-1.9
<b>Others</b>	<b>17075.5</b>	<b>17432.2</b>	<b>2.1</b>	<b>356.6</b>	<b>-</b>	<b>-</b>
<b>Total imports</b>	<b>34822.0</b>	<b>34710.0</b>	<b>-0.3</b>	<b>-112.1</b>	<b>-</b>	<b>-</b>

### Major Commodities Recording Increase

*Petroleum products* posted a growth of 25.4 percent during FY10. Liquidity issues prevailing in the petroleum industry forced the refineries to operate at low utilization rate. This directly caused a decline in imports of crude oil. Falling import quantum of crude led to increased import demand of petroleum products amid rising domestic demand. Disaggregated analysis of petroleum products indicates that domestic production of all the main products such as high speed diesel (HSD), furnace oil (FO) and MOGAS (MS) declined during FY10. Due to major fall in domestic production of these categories, the import quantum increased in FY10 (see **Table 7.28**).

Quantum impact for FY10 remained 662 million US\$ while price impact remained -395 million US\$. The impact of commodities(whose quantum is not available) was -379 million US\$

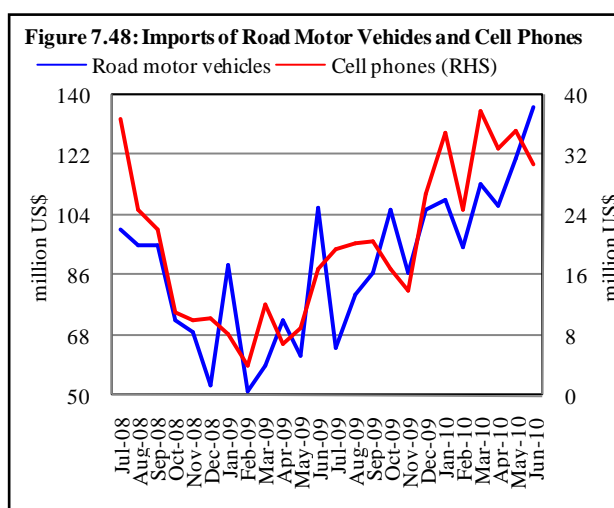
**Table 7.28: Analysis of Petroleum Products**

Product	Production				Imports			
	000 MT		Absolute change		000 MT		Absolute change	
	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY10
HSD	3260.6	3136.2	-301.7	-124.4	4286.6	4481.4	21.6	194.8
FO	3080.2	2484.0	-234.9	-596.2	5064.5	6729.0	1128.2	1664.4
MOGAS	1288.2	1337.5	-53.3	49.4	249.2	625.0	121.8	375.8

Shortage/load shedding of gas, narrowing of the price differential between CNG and motor spirit, and rising sales of automobiles led to high demand of motor spirit. The import demand of furnace oil further accelerated in FY10. The demand for furnace oil emanated from the power generating sector. If the refineries continue to operate at low capacity utilization rates, then import demand for petroleum products is likely to persist *going forward*.

The increase in imports of *aircrafts, ships and boats* is mainly attributed to the import of a submersible drilling platform worth US\$ 202.0 million during the month of January. Demand of ship breaking vessels also increased by the ship breaking industry as evident by the fact that the number of vessels for ship breaking purpose increased from 42 to 100 during the first nine months of FY10.

As far as import of *road motor vehicles* is concerned, main impetus came from imports of CKDs/SKD of motor cars and motor bikes. This increased import is attributed to strong domestic demand. Not only the production of motor cars and bikes soared but domestic sales also improved during the period under review. Introduction of new models also led to high sales during FY10. Anecdotal evidence suggests that the growth in sales of automobiles is remarkable given the fact the most of the cars were purchased on cash as consumer financing remained relatively unchanged as compared to last year. This sharp rise in car production also resulted in high *imports of rubbers and tyres tubes*. However with the tightening of monetary stance from the start of FY11, demand for consumer goods may lose some momentum and imports of road motor vehicles may witness a slowdown in the *near future*. Introduction of new *cell phones*, revival in consumer demand and relaxation in import duties<sup>29</sup> resulted in high imports of cell phones during FY10 (see **Figure 7.48**).

**Table 7.29: Fertilizer Demand Supply Situation**

Actual figures during FY10 (000 MT)			
	Off take	Production	Imports
Urea	5,152	1,526	6,545
DAP	626	959	1,535
Abs. increase during FY10 (000 MT)			
	Off take	Production	Imports
Urea	788	232	586
DAP	445	63	701
YoY growth during FY10 (percent)			
	Off take	Production	Imports
Urea	4.7	62.3	13.7
DAP	11.2	270.5	40.8

<sup>29</sup> 50 percent reduction in sim activation charges and reduction of custom duty from Rs. 500/set to Rs. 200/set.

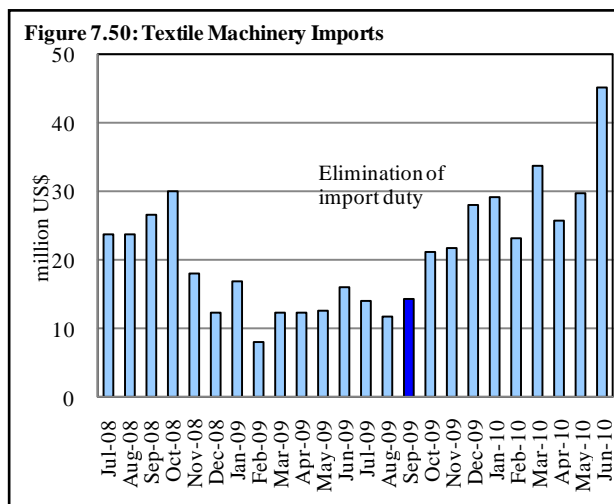
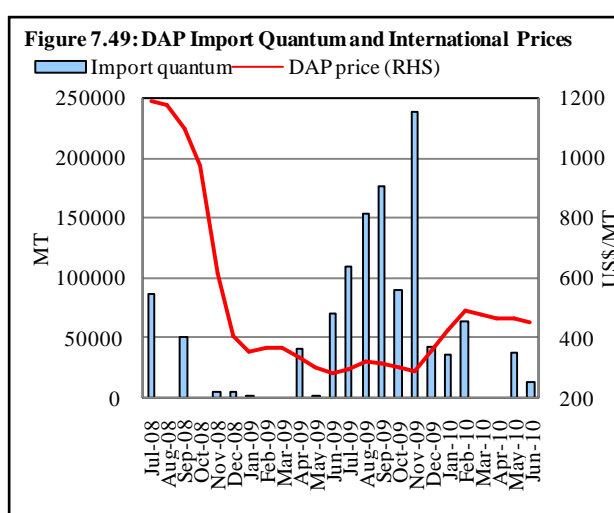
*Fertilizer* imports recorded a rise of 65.0 percent YoY mainly on account of increased quantum impact. Record off take due to strong performance of agri-commodities led to high imports of both urea and DAP during the period under review. It is pertinent to mention that despite the increase in domestic production, imports were made in order to cater the soaring domestic demand (see **Table 7.29**).

Another important factor behind high imports of DAP was the international price movement of DAP. Monthly analysis of DAP import quantum and international prices shows that the fall in DAP prices during FY10 compelled the importers to buy more quantum in order to take advantage of low import prices (see **Figure 7.49**)

Going forward, reliance on imported supplies is likely to slow down as functioning of two new plants is likely to increase the domestic capacity.

Sharp increase of 429.9 percent YoY was observed in imports of *sugar* mainly due to low production during FY10. The government in order to bridge the demand-supply gap imported sugar in large quantity.<sup>30</sup> It is important to mention that in case of sugar, higher import unit prices also inflated the import bill. The average unit price during FY10 was 590.0 US\$/MT in contrast to average unit price of 447.0 US\$/MT during the preceding year.

Improved performance of high value added sector as evident from the revival in exports resulted in demand for *textile machinery*. It is important to mention that demand of textile machinery remained subdued during FY09 from both the low value and high value producers. However, with better external demand and improved performance of domestic textile industry, demand started to increase from spinning as well as downstream industry in FY10. Resultantly, imports of textile machinery rose by 40.4 percent in FY10. It is important to mention that major categories of textile machinery were imported from China; however few categories were imported from European countries as well. The supportive measures announced by the government and State Bank of Pakistan<sup>31</sup> also facilitated the importers. Monthly analysis indicates that after the removal of import duty



<sup>30</sup> Average consumption of sugar is estimated to be around 3.8 million MT per year, whereas production during FY10 is 2.8 million MT. Keeping this in view, the government announced 1.0 million MT imports of sugar in order to bridge the demand-supply gap during FY10. So far only 0.5 million MT sugar has been imported

<sup>31</sup> SMEFD Circular Letter No. 03 of 2010, according to which import of second hand shall be eligible for refinancing under the Long Term Financing Facility.

in September 2009, imports of textile machinery started to accelerate (see **Figure 7.50**).

### **Major Commodities Recording Fall**

In terms of fall, major fall came in imports of wheat, crude oil, power generating machinery, telecom and iron & steel.

The fall in *crude oil* imports is attributed to both falling quantum and price impact. However, quantum impact is more prominent. Going forward, if the refineries still work at the utilization rates they were operating during FY10<sup>32</sup> quantum of imported crude is likely to remain low.

In case of *other machinery*, the drop of 28.9 percent is mainly explained by the decline in imports of oil refining machinery.<sup>33</sup> This decline was inevitable as refineries were working at low utilization rates and they were importing products rather than importing crude. As far as import of power generating machinery is concerned, piled up inventories by the importers in the previous year coupled with subdued demand from household sector due to usage of second hand generators also contributed to falling import growth.

Unlike the preceding year, in which share of imported *wheat* was around US\$ 1.0 billion, wheat imports plummeted during FY10 amid better domestic production although, the target set for FY10 could not be attained.

The fall in *telecom* imports is solely explained by the YoY fall of 43.7 percent in imports of apparatus which more than offset the increase in imports of cell phones. Falling foreign direct investment (FDI) resulted in low imports of apparatus.

The decline in imports of *iron and steel* is probably due to the fact that construction activities remained relatively lower as compared to last year. Going forward, reconstruction activities after the recent floods may lead to high imports of iron and steel.

*Palm oil* imports also observed a YoY fall of 5.7 percent on account of falling quantum and import prices. In terms of category, imports of crude palm oil declined whereas imports palm olein (refined form of palm) increased. Going forward, importers of crude palm oil are likely to take advantage of the reduction in duty on crude palm oil<sup>34</sup>. Anecdotal evidence suggests that import quantum of palm oil is likely to increase amid high demand and low level of inventories.

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<sup>32</sup> POL industry was operating at 75 capacity utilization rate during FY10

<sup>33</sup> Number of imported oil refining machines in Jul-Mar FY10 are 353 as compared with 2087 machines imported during the same period last year.

<sup>34</sup> Duty on crude palm oil is being reduced to Rs. 8,000/MT from Rs. 9,000/MT.