5 External Sector

5.1 Overview

The global commodity slump continued to figure prominently in improving Pakistan's balance of payments during the first half of FY16. Oil prices tumbled to 12-year low by end-December, which instigated further cuts in the country's import bill (**Table 5.1**). Although a steep decline in exports offset much of the gains, the overall deficit in the current account during H1-FY16 was significantly lower than the level seen in the same period last year. As foreign investments remained short, the financing of this deficit was mainly done via IFI loans and commercial borrowings, plenty of which were available. Therefore, the country's reserves continued to grow, with SBP's net international reserves moving on the targeted trajectory.

Table 5.1: Summary of Pakistan's External Sector

million US$

	Q1-FY15	Q1-FY16	Q2-FY15	Q2-FY16	H1-FY15	H1-FY16
Current account balance	-1,631	-351	-832	-1,074	-2,463	-1,426
Trade balance	-6,054	-4,700	-3,884	-4,541	-9,938	-9,241
Export receipts	5,959	5,321	6,205	5,497	12,164	10,818
Import payments	12,013	10,021	10,089	10,038	22,102	20,059
Oil imports	4,476	2,582	3,122	1,882	7,598	4,464
Services balance	-658	-177	-833	-836	-1,491	-1,013
Worker remittances	4,775	4,967	4,387	4,769	9,162	9,736
FDI in Pakistan	201	248	410	376	611	624
Portfolio inv. in Pakistan	133	390	991	-152	1,124	238
Eurobond / Sukuk	0	500	1,000	0	1,000	500
FX loans (net)	431	632	912	1,958	1,342	2,590
Country's FX reserves (end-period)	13,511	20,075	15,268	20,812	15,268	20,812

Source: State Bank Pakistan

This improvement, albeit welcome, is not much reassuring. As in case of other emerging markets, vulnerabilities have grown as the global economy embraces new norms for some time: a lackluster economic recovery; structural shifts in the oil market that engendered excess supplies; very low inflation rates across advanced economies; and nervy global equity and currency markets amid weakening in China and policy reversal in the US.[1] Major emerging market

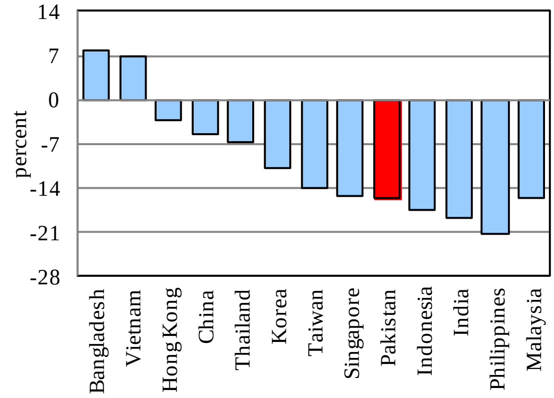
[1] The global economy is estimated to have grown by 3.1 percent in 2015, down from 3.4 percent in 2014. Growth in advanced economies has risen marginally, but this was more than offset by a steep

economies (EMs) have lately seen their exports falling; remittances been slowing down; and a much contained cross-border investments. Pakistan is being affected alike.

Worryingly, the decline in Pakistan's exports entered its fourth straight quarter in Q2-FY16, and at a much stronger pace compared to the preceding three quarters.[2] In the meantime, non-oil imports continued to firm up as domestic demand stayed vibrant; import of machinery, steel and other raw materials was particularly strong to fuel the on-going domestic construction activity. Since remittance growth could not keep pace to even out this growing imbalance, the current account deficit increased by 29.1 percent YoY in the second quarter, after falling in the first (**Section 5.2**).

So effectively, external conditions have recently started to play out adversely for Pakistan.[3] This primarily reflects Pakistan's inability to step into the league of countries that were able to defy global downturn – either by increasing their nominal competitiveness, and/or by introducing and following through on structural reforms.

Figure 5.1: Export Growth (YoY) in Emerging Economies - Jul-Dec 2015



Source: Haver Analytics

More specifically, Bangladesh and Vietnam were able to put up enviable export performances in H1-FY16, when import demand from the largest markets – the US and the EU – remained low (**Figure 5.1**).[4] Here, it is important to recall that a large part of the export decline for most EMs has been concentrated in commodity-dependent products, as lower prices translated into

cut in the growth of emerging market economies. China, in particular, has posted a 25-year low growth of 6.9 percent in 2015 (source: IMF World Economic Outlook, January 2016 Update).

[2] The decline in Pakistan's exports reached 14.6 percent YoY in Q2-FY16, compared to 14.3 percent in Q1-FY16; 4.8 percent in Q4-FY15; and 9.2 percent in Q3-FY15 (source: Pakistan Bureau of Statistics).

[3] Side by side, it is important to note that the ongoing structural reform programme, and the expected activity under the CPEC umbrella, would go a long way to strengthen Pakistan's external sector.

[4] Total imports of the US and EU have posted a decline of 5.5 percent and 13.9 percent YoY respectively during Jul-Dec 2015 (source: Eurostat and ITC).

lower dollar earnings. However in case of Pakistan, the export drop was broad-based and mostly due to lower quantities. High production costs and lack of product depth are indeed taking their toll.

Similarly, external conditions certainly contributed in pushing down foreign investments, but we must not forget that these inflows were already falling before the global investments dried up.[5] In addition to domestic policy issues, security conditions, and energy shortages, the concentration of FDI in the oil and gas sector over the past few years was also an important reason: the dramatic fall in crude prices limited reinvestments by oil & gas MNCs operating in the country.[6] Additionally, low profitability in this sector strained the KSE-100 index, which was already under pressure amid fears of crackdown on high profile brokers. The index's fall was exacerbated by foreign investors taking out US$ 240.7 million from the KSE during the first half of FY16.[7]

Under these circumstances, the China-Pakistan Economic Corridor provides a dash of optimism. Besides being a stable source of FX inflows over the program period, these investments will help remove major supply-side constraints (power and infrastructure) for the industrial sector, and may also contribute to a fall in the cost of doing business.

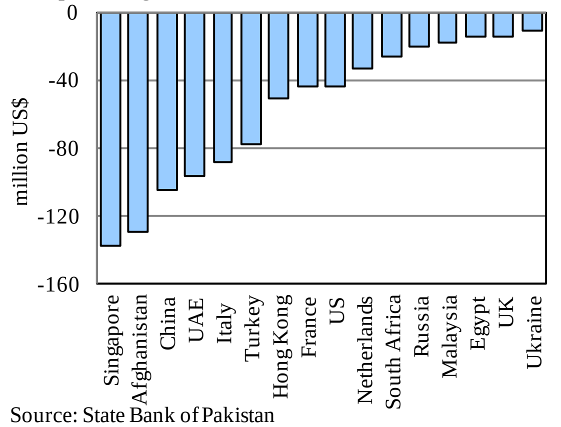
That said, we believe that Pakistan needs much more FDI inflows in other sectors of the economy as well; unless we are able to attract investment in exporting sectors, structural imbalances cannot be addressed. To this end, formulating and implementing a smart industrial and trade policy that actively seeks to diversify Pakistan's export base and destinations, is a must. It is also imperative to carefully evaluate Pakistan's trade balance under existing FTAs and adopt a cautious stance in negotiating new agreements. In particular, Pakistan should actively seek to discourage the influx of low-tech and unproductive goods into the country under such agreements.

[5] FDI into 'Developing Asia' grew by 15.5 percent in CY 2015 (source: UNCTAD Global Investment Trends Monitor 2015), while inflows to Pakistan registered a big drop of 54 percent in the year.
[6] In the previous five years, inflow into the oil & gas exploration alone constituted nearly 66 percent of total FDI in the country. During H1-FY16, FDI into this sector virtually stayed unchanged at US$ 157 million compared to H1-FY15.
[7] Source: National Clearing Company of Pakistan Limited (NCCPL).

5.2 Current account: Falling exports offset gains from lower oil import bill

Low oil prices continued to benefit the current account, as the deficit declined significantly in H1-FY16 compared to last year. However, as mentioned before, the entire improvement came in the first quarter, as the decline in export receipts in the second quarter was steep enough to offset the modest decline in the country's import payments (**Section 5.5**). As shown in **Figure 5.2**, the decline in exports was not concentrated in a particular destination, though Asian economies and the EU contributed the most.

Figure 5.2: Country-wise YoY change in Pakistan's Export Receipts during H1-FY16

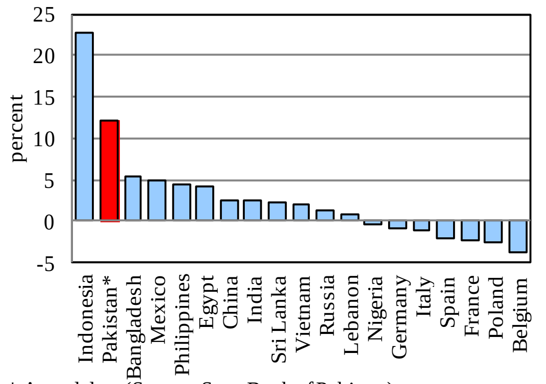


Source: State Bank of Pakistan

Worker Remittances

The pace of remittances to developing countries has slowed down in recent months mainly due to very low inflation across advanced economies, and a slow global economic recovery.[8] Pakistan has not been immune to this trend, as the growth in remittances has begun to weaken. That said, among the top-20 remittance recipients worldwide, Pakistan has been able to post a relatively decent growth in calendar year 2015, along with Indonesia (**Figure 5.3**). In fact, these two countries stand out glaringly among the leading recipients; in case of Pakistan, this seems to be an outcome of efforts under the Pakistan Remittance Initiative (PRI), to deepen the remittance services business

Figure 5.3: Estimated YoY Growth in Remittances in CY 2015 over CY 2014



* Actual data (Source: State Bank of Pakistan)
Source: World Bank

[8] Remittances to developing countries registered a modest growth of 2 percent in 2015, compared with 3.3 percent in 2014 and 7.7 percent (on average) from 2010 to 2013 (source: World Bank).

Table 5.2: Country-wise Remittances into Pakistan
million US$

	Q1		Q2		H1	
	FY15	**FY16**	**FY15**	**FY16**	**FY15**	**FY16**
Total	**4,775.1**	**4,966.5**	**4,387.0**	**4,768.8**	**9,162.2**	**9,736.0**
USA	737.5	715.9	672.1	631.6	1,409.5	1,347.5
U.K.	656.6	671.9	555.9	580.2	1,212.5	1,252.1
GCC	2,936.6	3,148.7	2,750.6	3,094.6	5,687.2	6,243.2
Saudi Arabia	1,347.0	1,440.9	1,302.8	1,455.0	2,649.8	2,895.9
U.A.E.	1,037.7	1,114.8	949.0	1,058.8	1,986.8	2,173.5
Dubai	537.9	763.2	494.9	704.1	1,032.8	1,467.3
Abu Dhabi	482.9	332.3	437.9	337.9	920.8	670.2
Other GCC	551.8	593.0	498.8	580.8	1,050.6	1,173.8
EU	112.5	93.6	85.6	98.1	198.1	191.7
Other countries	332.0	336.6	322.8	364.3	654.9	700.9

Source: State Bank of Pakistan

by engaging more money transfer operators (MTOs), domestic postal services, and the telecom sector.

More recently, however, the tapering in remittance growth has intensified (**Table 5.2**). During H1-FY16, remittance inflows into Pakistan have grown by only 6.3 percent YoY, compared to 17.6 percent in the same period last year. Importantly, while the decline in growth during Q1-FY16 was primarily a seasonal phenomenon, the slowdown in Q2-FY16 represents the impact of adverse global conditions.

In particular, inflows from the US have dropped by 6.0 percent YoY during Q2-FY16, compared to an increase of 8.0 percent during the same period last year. This is surprising because overall unemployment in the US has steadily been declining.[9] We can identify two factors contributing to this decline: first, the anticipation of a Fed rate hike through most of the period might have impacted the asset allocation plans of expatriates who send money to Pakistan for investment purposes; and second, anecdotal evidence suggests that high skilled Pakistani workers engaged in America's oil industries have faced salary cuts and layoffs. However, these two factors *alone* cannot explain the magnitude of the fall in remittances from the US.

As for the GCC, which constituted around 60 percent remittance growth over the previous five years, the slowdown was expected keeping in view the public

[9] The unemployment rate in the US has dropped from 5.6 percent in December 2014 to 5.0 percent in December 2015 (Source: US Bureau of Labor Statistics).

spending in the region. However, remittance growth from this region is still higher compared with other countries. More importantly, the number of Pakistani workers going into this region has increased in recent months (**Table 5.3**). This basically suggests that the impact of falling oil prices is yet to translate into lower labor demand from GCC via reduced spending on infrastructure and transport.

Table 5.3: Number of Workers Going Abroad and Registered with BEOE (Jul-Dec)

	Numbers			Growth rate%	
	FY14	**FY15**	**FY16**	**FY15**	**FY16**
Total	622,714	752,288	946,571	20.8	25.8
Saudi Arabia	102,527	164,107	274,005	60.1	67.0
UAE	273,234	350,344	326,986	28.2	-6.7
Qatar	8,119	10,042	12,741	23.7	26.9
Oman	47,794	39,793	47,788	-16.7	20.1
Malaysia	2,031	20,577	20,216	913.1	-1.8
Others	189,009	167,425	264,835	-11.4	58.2

Source: Bureau of Emigration and Overseas Employment

So far, this region has been resisting big cuts in fiscal spending, as support from their previously accumulated FX reserves has been available. It must also be noted here that certain expenditures cannot be compromised by the governments in this region, like Expo 2020 related expenses in Dubai, and FIFA World Cup 2022 related expenses in Qatar. However, countries that have been operating at high (fiscal) break-even prices are now finding it hard to sustain their spending spree; their reserves are depleting fast.

For instance, FX reserves of the Saudi Arabian Monetary Agency (SAMA) have fallen by US$ 116 billion in the past 12 months, to finance the huge fiscal deficit (of 15 percent of GDP) ran by the Kingdom.[10] To avoid such depletion next year, the government is planning to cut the deficit primarily via expenditure controls; side by side, it is also planning to privatize state-owned entities to generate more funds. Similarly, the UAE is planning to cut its infrastructure spending. However, not all states would follow the austerity path; as mentioned before, Dubai has to continue preparations for Expo 2020, for which it has announced a 12 percent increase in its overall spending.[11]

Going forward, we expect remittances to grow modestly as most of the factors outlined above are likely to remain in play in the medium-term. Pakistan government is working through diplomatic channels with most countries in the Gulf to increase the participation of its workforce in infrastructure activity in the region. Pakistani banks are also expanding their network of existing tie-ups with

[10] Source: Haver Analytics
[11] Source: Department of Finance, Government of Dubai (http://dof.gov.ae/en-us/media/news/Pages/2016budget.aspx).

leading money transfer operators, to provide their customers efficient and convenient money transfer facilities, which would eventually help switch more remittances from informal to formal sector.[12]

5.3 Financial account

The financial account posted a stable picture during H1-FY16, mainly due to hefty inflows from IFIs. Against the budgeted foreign inflows of US$ 9.2 billion for FY16, Pakistan received US$ 4.2 billion during H1-FY16.[13] These receipts included US$ 500 million from a Eurobond issue; US$ 1.2 billion from the World Bank and ADB; and over US$ 400 million in bilateral inflows. However, there was also a noticeable increase in short-term borrowings during the period by the government. Commercial banks also borrowed US$ 371 million from commercial lenders to curb volatility in the interbank market.

Table 5.4: Net FDI inflows
million US$

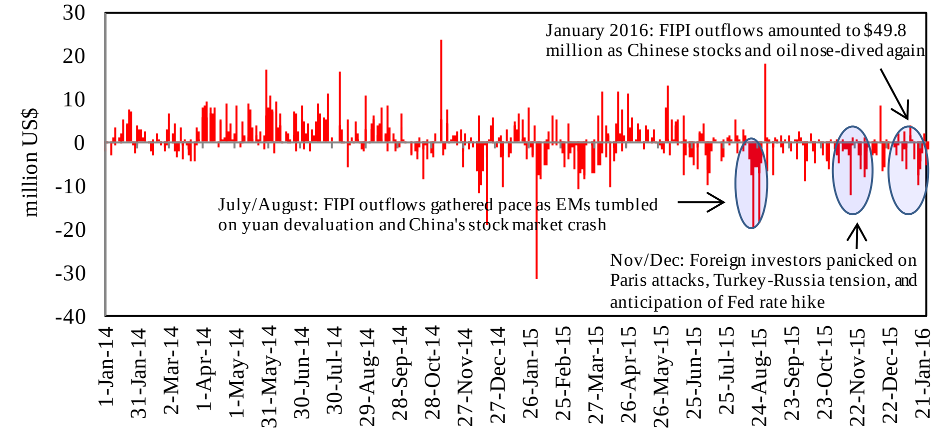
	Q1		Q2		H1	
	FY15	**FY16**	**FY15**	**FY16**	**FY15**	**FY16**
Total FDI inflows	201.0	248.0	410.0	379.9	611.0	623.7
FDI from China	2.2	186.0	178.2	214.2	180.5	400.2
FDI excl. China	198.8	62.0	231.8	165.7	430.5	223.5

Source: State Bank of Pakistan

While global FDI inflows picked up pace in 2015, much of the increase appeared concentrated in cross-border mergers and acquisitions; investments in greenfield projects stayed virtually flat in nominal terms. In Pakistan, there was a marginal uptick in FDI during H1-FY16: an increase in inflows from China has more than offset the decline in inflows from other countries (**Table 5.4**). Within power, most of the *increase* in investment flows was noted in coal-based generation.[14] China has also increased its investment in Pakistan's telecom sector during the period under review.

[12] For instance, a leading MTO, *Transfast*, has recently launched mobile and online money transfer services to its partner commercial banks in Pakistan. This facility would enable Pakistani expats in the US and Canada to send money to their families online, without needing to visit a *Transfast* outlet in person.
[13] Of the total, US$ 896 million were for project aid and over US$ 3 billion for non-project aid. Furthermore, US$ 3.5 billion of the budgeted inflows were in the form of loans, with only US$ 365 million in grants (source: Economic Affairs Division).
[14] FDI into the power sector went up to US$ 320.2 million during H1-FY16 from US$ 85.3 million in H1-FY15. Of this, coal-based projects received FDI of US$ 230 million during H1-FY16.

Figure 5.4: Foreign Investors Portfolio Investment (FIPI) - Net buying/selling (Jul-Jan FY16)



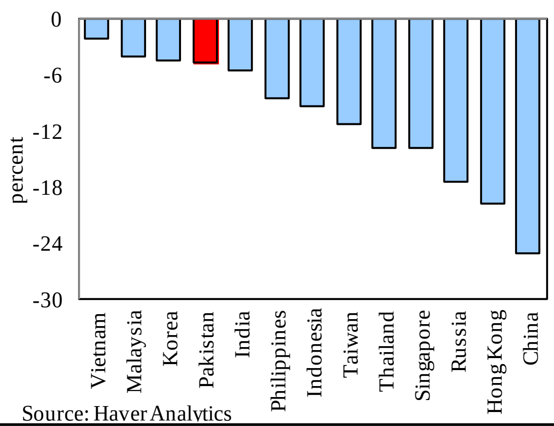
Source: National Clearing Company of Pakistan Limited

For the remaining year, we expect more FDI in power and infrastructure from China. However, investments from other countries will take some time to pick up, as (i) global economic growth is expected to remain subdued; and (ii) low oil prices will keep oil-related FDI on the sidelines.

Global equity market suffered massive sell-off during Jul-Dec 2015. Emerging markets in particular saw capital outflow of US$ 735 billion in 2015, of which US$ 676 billion was taken out from China alone. In addition to a weak outlook on global oil prices, this pressure also represented several other factors: (i) an anticipation of interest rate hike by the Fed through most of the period (which eventually took place in December); (ii) volatility in China's currency and equity markets and fears about its spreading to other EMs; and (iii) adverse geo-political developments, like the Paris attacks and growing rifts between Turkey and Russia (**Figure 5.4**).

Like other emerging markets, Pakistan also saw net foreign selling from the local equity market. However, as shown in **Figure 5.5**, Pakistan was among those countries whose equity markets were least affected from the global sell-off.

Figure 5.5: Performance of Equity Markets in Emerging Economies between July and December 2015



Source: Haver Analytics

However, the local equity market came under renewed pressure in January 2016, as the stock market rout worsened in China and oil prices continued to slide. Foreign investors were net sellers of $49.7 million worth of stocks at the Pakistan Stock Exchange-100 index (earlier KSE-100) during the month.

5.4 Trade account[15]

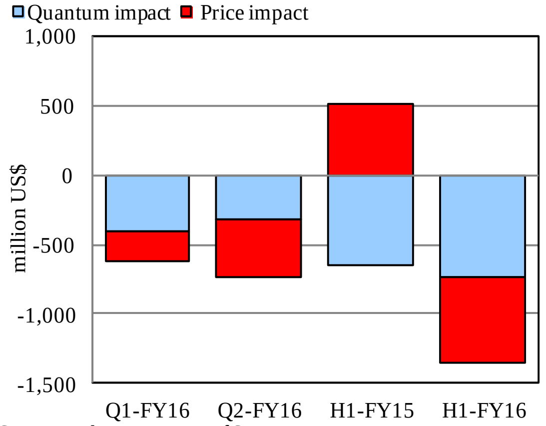
Pakistan's trade deficit reached US$ 11.9 billion during H1-FY16, showing a marginal decline over the same period last year. The entire improvement was witnessed in Q1-FY16, as the second quarter recorded a 14.2 percent YoY increase in the deficit. This deterioration can be traced to a sharp decline in exports, which outpaced a marginal decline in imports during the quarter (**Table 5.5**).

Table 5.5: Foreign Trade (percent growth YoY)

		Exports	Imports	Trade deficit
Q1	FY15	-10.4	11.6	44.4
	FY16	-14.3	-14.9	-15.5
Q2	FY15	2.3	11.2	22.8
	FY16	-14.6	-0.8	14.2
H1	FY15	-4.4	11.4	33.5
	FY16	-14.5	-8.1	-1.7

Source: Pakistan Bureau of Statistics

Figure 5.6: Breakdown of YoY Change in Exports



Source: Pakistan Bureau of Statistics

Exports

Weak global demand and structural constraints in Pakistan's commodity producing sectors, continued to affect the country's exports. The decline in H1-FY16 was broad-based, but most prominent in cotton, cotton yarn, bed-wear, plastic, leather manufactures, pharmaceutical and cement (**Table 5.6**). As shown in **Figure 5.6**, falling quantums led the overall export slump, though unit prices also contributed to some extent.

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

Table 5.6: Growth in Quantum Exports (YoY)
percent

	Q1		Q2		H1	
	FY15	**FY16**	**FY15**	**FY16**	**FY15**	**FY16**
Basmati	-13.7	0.5	4.3	-10.5	-5.3	-5.1
Non-basmati	-12.5	21.7	14.1	16.0	5.0	17.6
Meat	-24.1	25.2	-4.3	-1.4	-14.5	10.9
Raw cotton	-21.6	21.3	0.5	-73.3	-9.9	-34.4
Cotton yarn	-16.6	-23.4	16.7	-38.6	-1.4	-31.6
Cotton fabrics	-24.4	3.7	-28.0	5.9	-26.2	4.8
Knitwear	-1.6	4.3	-2.2	1.9	-1.9	3.1
Bed-wear	-0.8	-7.1	4.7	-1.4	1.7	-4.4
Towels	0.2	24.8	1.2	-4.4	0.7	9.6
Readymade garments	4.8	-1.9	11.2	6.6	7.9	2.4
Synthetic textiles	-22.5	12.2	14.8	-28.5	-6.9	-8.8
Leather tanned	-15.8	-26.1	-13.0	-31.1	-14.5	-28.5
Leather garments	-19.2	-14.9	-33.9	-17.8	-27.2	-16.3
Footwear	-7.9	-27.4	-3.9	10.2	-6.2	-11.0
Plastic material	-22.6	-10.5	-15.5	-58.2	-18.7	-37.6
Pharmaceutical	-7.3	-26.7	17.4	-29.0	4.3	-27.9
Electric fan	-0.2	-35.1	-7.5	-23.5	-3.1	-30.7
Cement	-4.3	-36.9	15.2	-27.0	4.0	-32.3

Source: Pakistan Bureau of Statistics

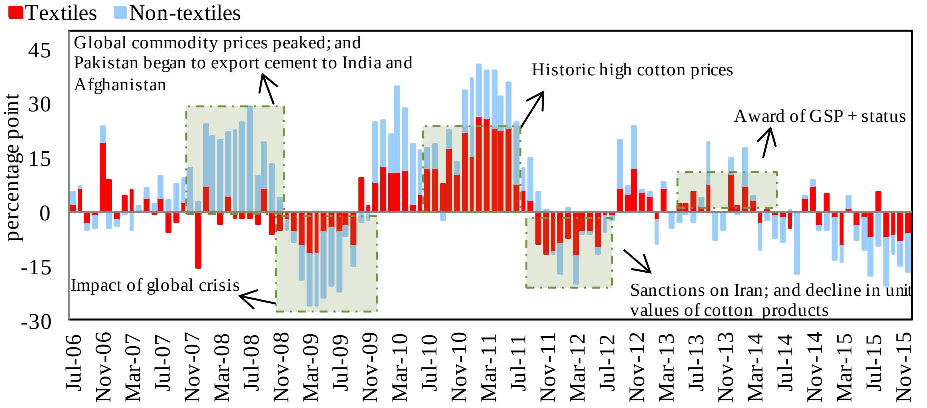
A patchy performance over the last decade

Pakistan's exports performance has remained unimpressive over the previous decade. Except for a couple of episodes of high growth due to one-off factors, export growth has been quite volatile especially after the crisis years of 2008 and 2009 (**Figure 5.7**).

This performance is an outcome of a confluence of both demand and supply-side factors. On the supply side, energy shortages, and low level of skill set have been some major issues behind the downtrend in the country's exports over the past few years. Investment in exporting sectors has remained disturbingly low, as a cut-throat competition with emerging players like Bangladesh and Vietnam, has made margins in the exporting business fairly unattractive; this, together with a rise in production costs, has dented the overall viability of exporting business in the country (especially for our traditional items). Because of consistently low levels of investment, the exporters are not geared up to position themselves against changing consumer preferences in partner countries.

On the demand side, a major factor constraining Pakistan's export growth has been the slowdown in the economies of our major importing partners – China and the EU. While the Chinese economy is going through a historic phase of rebalancing, the EU has lately become quite inward-oriented, especially after the Euro went through a massive depreciation vis-à-vis US Dollar and other currencies. As far as the US is concerned, although its import demand has been modest all through these years, Pakistan has not been able to supply into this market due to change in market preferences. As a result, while Pakistan has been able to maintain its share in the EU and Chinese markets, it has lost its share in the US market to more dynamic exporters like Vietnam.

Figure 5.7: Trends in Exports (Composition of YoY Growth)



Source: Pakistan Bureau of Statistics

Export to Asia plunges the most

The decline in exports to Singapore, China and Afghanistan was particularly steep. In case of Singapore, the decline appears price-led, as petroleum oils and other POL products constitute the bulk of our exports to the city state. In contrast, China has continued to reduce its demand for Pakistani yarn and fabric; its value-added textile products are losing competitiveness in the EU and US markets due to wage build-up. Other low-cost countries are undercutting their prices significantly.[16] Nonetheless, China's demand for consumer items from Pakistan like seafood and leather products, has also declined as the overall Chinese economy weakened. In case of Afghanistan, most of the decline in export was visible in cement. A recovery is not likely in the near future, as Afghanistan is likely to switch some import orders to Tajikistan, with which it has lately signed a trade deal.

[16] Moreover, China itself is now more inclined towards high-tech products instead of low-tech products like textiles and footwear to advance further on the technology front.

Vietnam weakens Pakistan's export credentials
With the recent conclusion of the negotiations for the Trans-Pacific Partnership (TPP) agreement, Vietnam has already begun to expand its export base at the cost of other Asian countries like China, Pakistan and India. Anticipating zero tariffs on most of the textile and related goods, markets along the Pacific Rim are partnering with Vietnamese exporters to maximize the benefits of the agreement. Pakistan is particularly vulnerable to rising penetration of Vietnamese products in the US market, which is still the largest destination of our export products.

In the case of EU, it will be a great challenge ahead for Pakistani exporters to compete, when the FTA between the EU and Vietnam (EVFTA) – that will eliminate nearly all tariffs, would become operational. Currently the major exports of Vietnam to EU are electronic products, footwear, textiles and clothing, rice, seafood, and furniture. Except for electronic products, the product profile of Vietnam and Pakistan in this market is fairly similar. As in case of the US, the cooperation among Vietnamese and EU traders has started picking up: during H1-FY16 also, while the overall imports by the EU declined by 13.9 percent YoY (including imports from Pakistan), its imports from Vietnam has increased by 16.8 percent YoY.[17]

Imports
Imports declined by 8.1 percent YoY during Jul-Dec FY16, compared to a sharp rise of 11.4 percent in the same period last year. This decline was entirely due to price impact, as quantum effect for most of the products like fertilizer, raw cotton, and steel, was positive. In effect, the significant decline in petroleum imports more than offset the positive growth in non-oil imports (**Table 5.7**).

Table 5.7: Growth in Import Values - Major Categories
percent

	Q1		Q2		H1	
	FY15	**FY16**	**FY15**	**FY16**	**FY15**	**FY16**
Oil products	-1.4	-41.1	-15.0	-38.2	-7.8	-39.8
Non-oil	18.8	-2.9	24.6	12.2	21.7	4.7
Non-oil non-food	15.7	-0.8	22.5	14.5	19.0	6.9
Food	37.2	-13.3	37.3	0.5	37.3	-6.5
Machinery	23.0	-3.4	25.9	23.3	24.5	10.4
Transport	-1.0	3.5	32.8	1.5	14.1	2.5
Textile	21.2	-1.1	1.7	51.3	10.8	24.7
Agri & chemical	19.5	-4.3	17.9	0.3	18.7	-1.9
Fertilizer	33.0	27.2	23.7	12.3	27.3	18.4
Metal	22.0	-1.1	34.2	13.3	27.8	6.0
Total imports	11.6	-14.9	11.2	-0.8	11.4	-8.1

Source: Pakistan Bureau of Statistics

POL: Price impact is dominant
Petroleum imports declined by 39.8 percent in H1-FY16 compared to the same period last year, primarily due to lower unit values (**Table 5.8**).

[17] Source: Eurostat

Intriguingly, quantum import of petroleum products declined in H1-FY16 despite record-low prices; inventories probably made up for a modest increase in domestic consumption during the period.[18] More specifically, total petroleum sales in the country grew by only 4.1 percent YoY in H1-FY16, as compared to a rise of 11.5 percent in the same period last year. This increase was met by higher production by local refineries, on the back of crude inventories that were built over the previous few months.

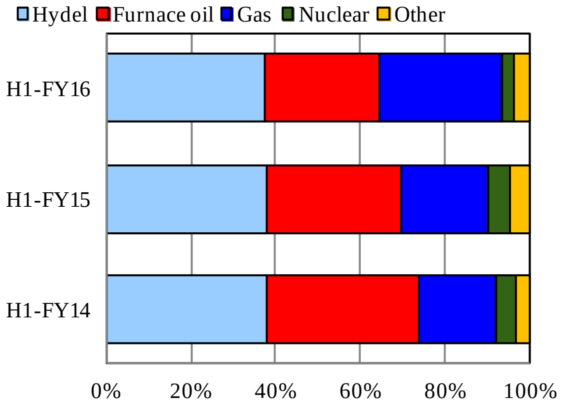
Table 5.8: Pakistan's Energy Imports in Jul-Nov*

	Quantity (000 MT)		Value import (million US$)	
	FY15	**FY16**	**FY15**	**FY16**
Motor spirit	1,061.0	1,612.0	979.0	929.3
Furnace oil	2,832.7	1,032.4	1,740.5	689.4
High speed diesel	1,342.2	1,272.8	1,003.4	579.8
LNG	0.0	363.6	0.0	199.5
LPG	33.1	67.7	26.8	62.3
Coal	2,097.6	1,906.8	218.3	186.3
Coke of coal	29.8	32.8	13.4	9.5
Kerosene	44.2	40.2	42.8	24.2

*Detailed data for Dec-2015 will be available by 25th March 2016
Source: Pakistan Bureau of Statistics

Within the petroleum products, the demand for motor spirit was the strongest. According to the Oil Companies Advisory Committee, sale of petrol has increased by 32 percent in Jul-Dec FY16 over the same period last year. This higher demand can be traced to multiple factors: (i) petrol prices remained 25 percent lower on average in Jul-Dec FY16, compared with the same period last year; (ii) lower availability of CNG triggered fuel substitution in favor of petrol; and (iii) a sharp rise in car sales.[19]

Figure 5.8: Use of Various Fuels for Power Generation



Source: NEPRA

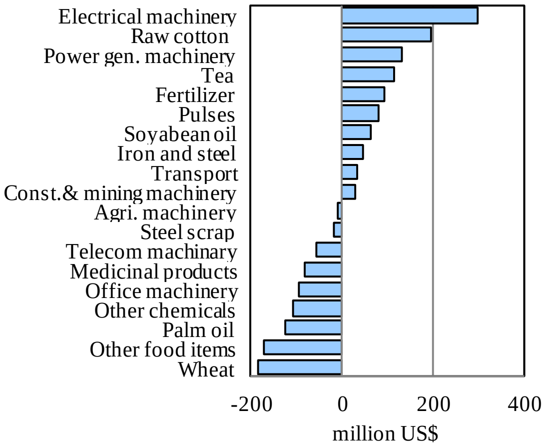
[18] Quantum import of petroleum (both crude and products) stood at 8.2 million MT during H1-FY16, compared to 9.6 million MT in H1-FY15 (a decline of 13.8 percent YoY).
[19] According to PAMA, car sales were 53.0 percent higher during Jul-Dec FY16, compared to the same period last year.

In the case of furnace oil, sales remained lower than last year as more natural gas was available for thermal generation (**Figure 5.8**).[20] Not only has the imported LNG been provided to power companies, more piped gas has also been diverted from households towards power generation.

Non-oil imports

After declining in the first quarter, non-oil imports surged again in the second quarter, posting a YoY growth of 12.2 percent. This mainly reflects vibrancy in domestic economic activity, especially on the back of ongoing investment in power and infrastructure projects. Most of the increase was seen in import of machinery related to power generation and construction. Even the increase in import of electrical machinery, was primarily used for power generation and distribution (**Figure 5.9**).

Figure 5.9: Major Non-oil Imports during Jul-Dec FY16 (YoY absolute change)



Source: Pakistan Bureau of Statistics

Steel imports posted 5.1 percent growth in Jul-Dec FY16, compared to a sharp rise of 54.3 percent in the same period last year. Most of the demand was observed for finished and semi finished products like, hot rolled coils, line pipes, boiler tubes and other items.

Cotton imports contributed additional US $198 million to the country's import bill during Jul-Dec FY16, mainly due to a sharp decline in cotton production this year.[21] Most of the imports were realized in November and December 2015 mainly from India and USA. Despite the inventories of cotton and yarn with the local textile industry and the imposition of 10 percent regulatory duty on import of cotton yarn, imports are likely to remain strong to compensate for lower domestic production.

[20] Sales of furnace oil during Jul-Dec FY16 were 9.0 percent lower than the same period last year.
[21] Total cotton imports stood at US$ 310.9 million in H1-FY16, compared to only US$ 113.0 million in H1-FY15.

Within the food group, import of palm oil declined largely because of lower global prices, as the quantum increased during Jul-Dec FY16 to support domestic production of edible oil.[22] Global prices, after having plummeted to historic lows in 2015, have somewhat recovered on speculation of lower supplies owing to unfavorable weather conditions and increased domestic demand in Indonesia (higher use of bio-diesel).[23] Among all the imported items, tea turned out to be a major exception in a sense that its import has increased primarily due to a rise in prices. Global tea prices remained strong because of production shortfalls in two of the world's largest exporters: Kenya and India.

Fertilizer imports posted a rise of 18.4 percent during Jul-Dec FY16, compared with a sharp increase of 27.3 percent in the same period last year. This increase can be traced to the government's decision to ensure sufficient quantity of urea for Rabi 2015-16, amid fears of gas curtailment in winters (November to January) which could potentially curtail domestic production during the season. However, gas supplies to fertilizer plants continued smoothly as the government decided to shift the fuel from households to more productive sectors like fertilizer, cement and power generation.[24] As a result, domestic urea production increased significantly.[25] Side by side, import of DAP also firmed up and constituted nearly 65 percent of the total fertilizer imports.

[22] Production of edible oil posted an increase of 8.9 percent YoY in H1-FY16.

[23] The Indonesian government has announced the B20 program in 2016, which primarily refers to increasing the use of biodiesel (80 percent diesel; 20 percent biofuels). Since Indonesia is using more of its palm oil domestically for blending into diesel, it has reduced the overall supplies of the commodity in the international market. The increase in use of biodiesel would eventually help Indonesia in meeting its earlier commitments on cutting carbon emission.

[24] According to gas distribution firms, about 440 mmcfd of gas was provided to three main sectors, fertilizer, cement and power generation in winter season (November to January). This includes 210 mmcfd from the SNGPL and 231 mmcfd from SSGCL.

[25] Fertilizer production increased by 15.0 percent during Jul-Dec FY16 as compared to a decline of 1.6 percent in the same period last year.