

ACKNOWLEDGEMENT

The Pakistan's Balance of Payments provides comprehensive accounts of all foreign exchange transactions taking place between residents and non-residents during a particular accounting period. The data is collected from a number of sources including banks, government ministries, Pakistani missions abroad, domestic and foreign shipping and airline companies, various departments/divisions of State Bank of Pakistan and other relevant quarters. The Balance of Payments statistics is compiled according to the guidelines of the latest edition of the IMF's manual on Balance of Payments and International Investment Position, 6th edition (BPM6). The team is indebted to all concerned personnel in these organizations for providing valuable and timely information for use in the compilation of balance of payments statistics. The team is also thankful to colleagues in other divisions/departments of State Bank of Pakistan for their contributions towards preparation of this publication. Finally, thanks are due to members of BOP Standing Committee for reviewing the data which helped in finalization of the estimates.

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INTRODUCTION

The **Balance of Payments** (BOP) is a statistical statement that summarizes transactions between residents and nonresidents during a period. This publication provides estimates of Pakistan's Balance of Payments for the financial year July 2015-June 2016 prepared in accordance with the IMF's Manual on Balance of Payments and International Investment Position 6th edition (BPM6).

2. The main components of BOP are (a) Current Account (b) Capital Account (c) Financial Account and Error and Omissions. Current account comprises of balance of trade in goods & services, primary income and secondary income. Capital account relates to acquisition/disposal of non-produced non-financial assets and capital transfers. Financial account records transactions that involve financial assets and liabilities taking place between residents and nonresidents. Financial transactions are classified into direct investment, portfolio investment, financial derivatives and employees stock options, other investments and reserve assets. Further, other investment comprises of other equity, currency & deposits, loans, insurance, pension, and standardized guarantee schemes, trade credits & advances and other accounts receivable/ payable. Monetary gold, special drawing rights (SDRs) and foreign exchange available with the State Bank of Pakistan are the part of the reserve assets. The financial account shows the net acquisition of financial assets and net incurrence of liabilities during the specified period.

3. Balance of Payments transactions are recorded on double-entry book keeping where each credit-entry is exactly balanced by an offsetting debit-entry and vice versa. A credit-entry records the provision of real resources such as exports of goods and services, a decrease in holding of foreign financial assets or an increase in foreign financial liabilities. Conversely, a debit-entry records imports of goods and services, an increase in holding of foreign financial assets or a decrease in foreign financial liabilities. When commodities are received or given away rather than for value or exchange, the recording is one sided. The offsetting entry is referred to as transfers classified under secondary income. The net positions of current account in BOP statement is arrived at by deducting credits from debits and for financial account as Net Acquisition of Financial Assets (NAFA) less Net Incurrence of Liabilities (NIL).

4. Conceptually, the sum of all credit entries is equal to sum of all debit entries. As the data for compilation of BOP estimates are taken independently from various sources, the process generates net credit or net debit and recognized in the balance of payments statement as “errors and omissions”. The statistical discrepancies may arise due to time lag, valuation and recording of individual items. In BOP statement, it would appear as a separate entry of equal amount with opposite sign.

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

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

8. The figures of merchandise trade used for compilation of BOP are based on exchange records which may differ from those compiled using customs records. The reasons of differences are the valuation, timing and coverage of transactions. Customs record trade figures generally on cif basis for imports and fob basis for exports while balance of payments data are adjusted on fob basis. The ‘timing’ of transactions is of considerable importance. Customs record trade at ports at the time of exit or entry of goods. Exchange records recognize trade on actual realization of proceeds and also include advance payments, payments through bills of exchange of varying maturity, payments by open book accounts or settlements of deferred payments basis.

These leads and lags cause difference between the two sets of figures adjusted to some extent. The gift parcels and passengers' dutiable goods are included, as a rule, by customs but not by exchange record. Data on these items is collected from other relevant sources and included in BOP trade. On the contrary, customs figures are exclusive of defense stores but exchange records include them. Similarly, following transactions are not covered in customs records but included in exchange records of banking channel:

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

EXPLANATORY NOTES ON COMPONENT ITEMS

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

CURRENT ACCOUNT

The current account shows flows of goods, services, primary income and secondary income between residents and nonresidents.

I. GOODS AND SERVICES

GOODS

Recording of goods implies provision or acquisition of real resources of an economy to and from the rest of the world. Goods cover general merchandise, goods under merchanting and nonmonetary gold.

- 1. General Merchandise on fob basis:** General merchandise on a balance of payments covers goods whose economic ownership is changed between a resident and a nonresident.
- 2. Merchanting:** It is defined as the purchase of goods by a resident (of the compiling economy) from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being present in the compiling economy. Merchanting occurs for transactions involving goods where physical possession of the goods by the owner is unnecessary for the process to occur.
- 3. Non-monetary Gold:** This covers exports and imports of gold not held in as reserve assets (monetary gold) by the monetary authority. Non-monetary gold is held as a store of value and treated like any other commodity.

SERVICES

Services component implies receipts & payments for provision and acquisition of services of an economy to and from the rest of the world. Services include following item:-

- 1. Manufacturing Services on Physical Inputs owned by Others:** Manufacturing services on physical inputs owned by others cover processing, assembly, labeling, packing, and so forth undertaken by

enterprises that do not own the goods concerned. The manufacturing is undertaken by an entity that does not own the goods and that are paid a fee by the owner.

2. **Maintenance and Repair Services:** Maintenance and repair services cover maintenance and repair work by residents on goods that are owned by nonresidents (and vice versa). The repairs may be performed at the site of the repairer or elsewhere. Repairs and maintenance on ships, aircraft, and other transport equipment are included in this item.
3. **Transport:** Transport is the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services. It also includes postal and courier services.
4. **Travel:** Travel credits cover goods and services for own use or to give away acquired from an economy by nonresidents during visits to that economy. Travel debits cover goods and services for own use or to give away acquired from other economies by residents during visits to these other economies.
5. **Construction Services:** Construction covers the creation, renovation, repair, or extension of fixed assets in the form of buildings, land improvements of an engineering nature, and other such engineering constructions as roads, bridges, dams, and so forth. It also includes related installation and assembly work. It includes site preparation and general construction as well as specialized services such as painting, plumbing, and demolition. It also includes management of construction projects.
6. **Insurance and Pension Services:** Insurance and pension services include services of providing life insurance and annuities, nonlife insurance, reinsurance, freight insurance, pensions, standardized guarantees, and auxiliary services to insurance, pension schemes, and standardized guarantee schemes.
7. **Financial Services:** Financial services cover financial intermediary and auxiliary services, except insurance and pension fund services. These services include those usually provided by banks and other financial corporations. They include deposit taking and lending, letters of credit, credit card services, commissions and charges related to financial leasing, factoring, underwriting, and clearing of payments. Also included are financial advisory services, custody of financial assets or bullion, financial asset management, monitoring services, liquidity provision services, risk assumption services other than insurance, merger and acquisition services, credit rating services, stock exchange services, and trust

services. Financial intermediation services indirectly measured (FISIM) using reference rates are also included in financial services.

- 8. Charges for the use of Intellectual Property:** Charges for the use of intellectual property include charges for the use of proprietary rights (such as patents, trademarks, copyrights, industrial processes and designs including trade secrets, franchises. These rights can arise from research and development, as well as from marketing); and charges for licenses to reproduce or distribute (or both) intellectual property embodied in produced originals or prototypes (such as copyrights on books and manuscripts, computer software, cinematographic works, and sound recordings) and related rights (such as for live performances and television, cable, or satellite broadcast).
- 9. Telecommunications, Computer, and Information Services:**
 - a. Telecommunication Services:** Telecommunications services encompass the broadcast or transmission of sound, images, data, or other information by telephone, telex, telegram, radio and television cable transmission, radio and television satellite, electronic mail, facsimile, and so forth, including business network services, teleconferencing, and support services.
 - b. Computer Services:** Computer services consist of hardware and software related services and data-processing services and
 - c. Information Services:** Information services include news agency services such as the provision of news, photographs, and feature articles to the media.
- 10. Other Business Services:** This category includes research and development services; professional and management consulting services; technical, trade-related, waste treatment and de-pollution, agricultural, and mining services; operating leasing and miscellaneous business.
- 11. Personal, Cultural and Recreational Services:** It covers audiovisual related services and other cultural services provided by residents to nonresidents and vice versa. Audiovisual related services include production of motion pictures on films or video tape, radio and television programs, and musical recordings. Among other cultural services are services associated with libraries, museums and other cultural and sporting activities.
- 12. Government Goods and Services n.i.e:** Government goods and services n.i.e. cover:

- a. Goods and services supplied by and to enclaves, such as embassies, military bases, and international organizations.
- b. Goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents and
- c. Services supplied by and to governments.

II. PRIMARY INCOME

Primary income represents the return that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units. It includes:

1. **Compensation of Employees:** Compensation of employees presents remuneration in return for the labor input to the production process contributed by an individual in an employer employee relationship with the enterprise. Wages, salaries and other benefits received to/from nonresident employers are treated as compensation of employees.
2. **Investment Income:** Following categories are included in the investment income:
 - a. **Direct Investment Income:** Direct investment income includes all investment income arising from direct investment positions between resident and nonresident institution units.
 - b. **Portfolio Investment Income:** Portfolio investment income includes income flows between residents and nonresidents arising from positions in equity and debt securities other than those classified under direct investment or reserve assets.
 - c. **Other Investment Income:** Other investment income covers flows between resident and nonresident institutional units in regard to interest on deposits, loans, trade credit and advances, and other accounts receivables/payable; income on equity and investment fund shares that are not classified in any other functional categories; and investment income attributed to policyholders in insurance, standardized guarantees, and pension funds. Interest payable on SDR allocations is also recorded under other investment. Fee for nonmonetary gold loans is also included in interest under other investment income.

d. Income on Reserve Assets: Investment income on reserve assets includes income on equity and investment fund shares, and interest. Fees on security lending and monetary gold loans and interest on unallocated gold accounts are also included under interest on reserve assets.

3. Other Primary Income: Following categories are included in other primary Income:

a. Rent: Rent covers income receivables for putting natural resources at the disposal of another institutional unit. The party providing the natural resource is called the lessor or landlord, while user is called the lessee or tenant.

b. Taxes and subsidies on product and production: Taxes and subsidies on products and production are included in the primary income account. Taxes on product, which are payable per unit of a good or service. Examples include value-added tax, import duties, export taxes, and excise and other taxes on production. Examples include payroll taxes, recurrent taxes on buildings and land, and business licenses.

III. SECONDARY INCOME

The secondary income account shows current transfers between residents and nonresidents. The transactions recorded in the secondary income account pertain to all transfers relating to general government (current international cooperation between different governments, payments of current taxes on income and wealth, etc.) and financial corporations, nonfinancial corporations, households, and NPISHs that directly affect gross national disposable income from abroad and influence the consumption of goods and services.

Types of Current Transfers: The international accounts classify the following types of current transfers:

1. Personal Transfers: Personal transfers consist of all current transfers in cash or in kind made or received by residents' households to or from non-resident households. Personal transfers thus include all current transfers between residents and nonresidents individuals.

2. Workers' Remittances: Current transfers made by employees to residents of another economy. The remittances received from Pakistani workers living abroad for one year or more on account of family maintenance in Pakistan is collected from Authorized Dealers of Banks, Exchange Companies and Postal authorities.

3. Other Current Transfers: Following categories are included in Other Current Transfers

- a. Current taxes on income, wealth, etc.
- b. Social contribution
- c. Social benefits
- d. Net premium on nonlife insurance and standardized guarantees
- e. Nonlife insurance claims and calls and call under standardized guarantees
- f. Current international cooperation
- g. Misc current transfers

CAPITAL ACCOUNT

The capital account in the international accounts shows (a) capital transfers between residents and (b) the acquisition and disposal of non produced, nonfinancial assets between residents and nonresidents.

- 1. Capital Transfer:** Capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or which obliges one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven by the creditor.
- 2. Acquisition/Disposal of Non-Produced, Non-Financial Assets:** Acquisition/ disposal of non-produced, non-financial assets consist of
 - a. Natural resources including land, mineral rights, forestry rights, water, fish rights, air space, and electromagnetic spectrum.
 - b. Contracts, leases, and licenses covering those contracts, leases, and licenses that are recognized as economic assets.
 - c. Marketing assets consisting of items such as brand names, mastheads, trademarks, logos, and domain names.

FINANCIAL ACCOUNT

The financial account records transactions that involve financial assets and liabilities and that take place between residents and nonresidents. Financial account further is segregated into:

- 1. Direct Investment:** Direct investment implies a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence by the direct investor on the management of the direct investment enterprise. Direct investment comprises the initial transaction between the two entities – that is, the transaction that establishes the direct investment relationship— and all subsequent transactions between the entities and among affiliated enterprises, both incorporated and unincorporated. For direct investment relationship, direct investor owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).
- 2. Portfolio Investment:** Portfolio investment implies holding by non-resident of less than 10% share in equity securities, investment in debt securities (in the form of bonds and notes) and investment in money market instruments of resident company.
- 3. Financial Derivatives (other than reserves) and Employee Stock Options:** A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk, and so on) can be traded in their own right in financial markets. Employee stock options (ESOs) have similar features to financial derivatives (such as a similar pricing behavior). ESOs are options to buy the equity of a company offered to employees as a form of remuneration.
- 4. Other Investment:** Other investment includes all financial transactions that are not covered in the categories for direct investment, portfolio investment or reserve assets. Under other investment, the instrument classified under assets and liabilities, comprises trade credits, loans (including use of Fund credit and loans from the Fund), currency and deposits, other equity and other accounts receivable/ payable.
- 5. Reserves Assets:** Reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, intervention in exchange markets, for maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing.

ERRORS & OMISSIONS

It is a balancing item intended to offset overstatement or understatement of recorded components due to statistical discrepancies.

Exceptional Financing are any arrangements made by the authorities of an economy to meet balance of payments needs other than those involving use of reserve assets, fund credit and loans from the Fund to deal with payments imbalances.

Notes: -

1. The transactions have been converted at the average midpoint rates of exchange prevailing during the respective periods.
2. As the figures are rounded separately, the sub-totals and totals may reflect minor differences.
3. The direct investment in net incurrence of liabilities may not match with direct investment in Pakistan by country available at SBP website as it is disseminated on Ultimate Controlling Parent (UCP) country basis.

REGIONS/COUNTRIES AND TERRITORIES

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

The statements have also been compiled for the following country groups viz., Organization of Islamic Conference (O.I.C.), Middle East, European Union (EU), Other European Countries, International Institutions and other countries. The aggregates of regional balance of payments data will not tally with those of the overall due to overlapping of some countries among the regions. The composition of country-groups may change from time to time. The country-groups comprise as follows:

I. Organization of Islamic Conference:

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

II. Middle East:

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

III. European Union:

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

IV. Other European Countries:

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

V. International Institutions:

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

VI. Other Countries:

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