

INTRODUCTION

The **Balance of Payments (BOP)** is a statistical statement for a given period showing transactions of residents of the reporting economy with the non-residents. This booklet provides estimates of Pakistan's Balance of Payments for the financial year July 2006 - June 2007 developed in lines with the methodology detailed in the 5th edition of Balance of Payments Manual of IMF (BPM5).

2. The main categories of BOP are (a) Current Account (CA) (b) Capital and Financial Account, (c) Errors and Omissions and (d) Exceptional Financing. The CA comprises of balance of trade in goods & services, income account and current transfers. Capital account relates to acquisition / disposal of non-produced non-financial assets and capital transfers. Financial account is classified into Direct Investment, Portfolio Investment, Financial Derivatives, Other Investments and Reserve Assets. Other Investment comprises of trade credits, loans, currency & deposits and other assets /liabilities. Monetary gold, special drawing rights (SDR) and foreign exchange available with the economy are the part of reserves.

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 denoting 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 the imports of goods and services, an increase in holding of foreign financial assets or a decrease in foreign financial liabilities. When items are received or given away rather than for value or exchange, the recording is one sided. The offsetting entry is referred to as transfer. These are shown as credits when the entries to which they provide the offsets are debits and as debits when those entries are credits. The net positions of accounts in BOP statement are arrived at by deducting debits from credits.

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

5. The balance of payments statement is based on data collected from various sources. Major portion of data is collected and compiled through international transactions reporting system (ITRS) from State Bank of Pakistan and authorized dealers in foreign exchange. The ITRS is supplemented by the annual surveys of foreign investment in Pakistan, status report in respect of 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, dry ports, duty free shops land borne trade with Afghanistan, EPZs etc.

6. From the quarter July-September, 2003 the Pakistan's balance of payments statements have been prepared in lines with guidelines provided in BPM5 and accordingly, the components of BOP in BPM4 have been changed as follows :-

- a) Capital transfers have been excluded from the current account of the balance of payments and included in capital account.
- b) Capital account has been renamed as capital and financial account with two sub accounts as i) capital account and ii) financial account.
- c) The former goods, services and income have been bifurcated into goods & services account and income account.
- d) Goods and services account separately identifies goods and services.
- e) The former “investment income” has been termed as “income” and is shown separately. Compensation of employees and “investment income” are the two major components of “income”. The investment income is further dividend into income from direct investment, portfolio investment and other investment.
- f) The reserve assets have been made part of financial account.

7. The merchandise transactions reported by banks are on a mixed f.o.b. and c.i.f. basis. For exports, the freight collected by foreign and Pakistani shipping or air companies relate to c.i.f. contracts. These amounts are subtracted from the export proceeds reported by banking channel. Adjustments are also carried out for outstanding export bills, proportionate share of the crude oil of foreign oil companies extracted in Pakistan and land borne trade.

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

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

Moreover, the trade figures compiled by the Federal Bureau of Statistics based on Custom’s record include land borne trade with Afghanistan which are not fully covered in exchange record and are given below:-

(Million US \$)

Afghanista n	2006		2007		2006-07	2005-06
	Jul - Sep	Oct -Dec	Jan - Mar	Apr -Jun		
Exports	246	144	109	222	721	1030
Imports	18	20	7	21	66	41

The above noted problems pertaining to merchandise transactions relating to timing and coverage adjustments are carried out while compiling balance of payments.

EXPLANATORY NOTES ON COMPONENT ITEMS

The Balance of Payments statement comprises four major categories viz., 1. Current Account, 2. Capital and Financial Account, 3. Errors and Omissions and 4. Exceptional Financing. The Current Account includes: (A) Goods and Services, (B) Income and (C) Current Transfers. The Capital and Financial Account is bifurcated into Capital Account and Financial Account. These accounts have been explained in the following paragraphs.

1. CURRENT ACCOUNT

A. Goods and Services

a. Goods

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

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

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

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

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

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

b. Services

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

1. **Transportation** covers all transportation (Sea, Air, Rail, Road and Others) services provided by residents to non-residents and vice-versa and involves the carriage of passengers, movement of goods (freight), charter of carriers with crew and other related supporting and auxiliary services. Activities excluded from transportation are freight insurance, repairs of transportation equipment and goods procured in ports by carriers. The debit entry under transportation includes 8 % of imports (mixed c&f, fob), the amount calculated on imports financed by foreign loans/credits/grants on stipulated ratios in various agreements or at the flat rate of 9 % for freight where such details are not available.
2. **Travel** represents receipts and payments under tourism and other travel for such purposes as business and personal. **Business travelers** are usually commercial travelers, government employees on official travel and employees of international organizations on official missions. Personal travel covers travelers going abroad for religious, educational, health purposes, visits to relatives and friends, participation in sports etc.
3. **Communication services** cover receipts and payments for telephone, telegraph, facsimile and telex including broadcasting and electronic mail services, postal and courier services.
4. **Construction services** covers receipts for work abroad on construction projects and installation by personnel of resident enterprises and payments of salary and allowances to the personnel of non-resident enterprises engaged in construction project
5. **Insurance services:** Credit entries cover net premium on direct insurance and reinsurance assumed by resident insurance companies. Debit entries cover premium on merchandise insurance on imports, which are not available separately but are included in freight. An estimated 10 percent of import freights are treated as insurance.
6. **Financial Services:** Receipts by banks operating in Pakistan from their offices and correspondents abroad and payments by banks to their branches and correspondents abroad on account of commission, cable charges including fees associated with letter of credit, bankers acceptances, lines of credit, financial leasing and other fees etc. are included under financial services.
7. **Computer and Information Services:** It covers receipts and payments for computer and news related services including data processing, hardware consultancy, software implementation, export of computer software, maintenance and repairs of computers and news agency services.
8. **Royalties and License Fee** The item covers receipts and payments associated with the authorized use of intangible non-produced non-financial assets and proprietary rights, such as patents, copy rights, trademarks, industrial processes etc. and the use through licensing agreement of produced originals or prototypes such as manuscripts and films.
9. **Other Business Services:** Receipts and payments for merchant and other trade related services, operational leasing and miscellaneous business, professional and technical services are covered under this head.
10. **Entertainment, Cultural and Recreational Services:** It covers receipts and payments for audio visual and related services and other cultural and recreational services.
11. **Govt. Services n.i.e.:** Under this residual item the primary credit entries are service expenditures of foreign diplomatic missions and international organizations in Pakistan and the primary debit entries are the expenditures relating to Pakistan diplomatic personnel, diplomatic and trade mission, and military expenditures abroad.

B. Income

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

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

2. Investment income

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

2.2. Portfolio investment income: The credit entry covers dividend accrued on equity securities (shares) and interest received from holding of foreign bonds, notes, and money market instruments and associated financial derivatives, and the debit entry includes the payments on account of the same instruments to the foreign investors. Data on portfolio investment income are collected from the exchange records provided by authorized dealers and State Bank of Pakistan.

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

C. Current Transfers

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

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

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

2. Capital and Financial Account

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

Capital transfer: Capital transfer consists of transfer of ownership of fixed assets or forgiveness of financial liabilities between residents and nonresidents without quid pro quo. It includes mainly official project grants data,

which are collected from the Economic Affairs Division. Capital transfers are classified into two sectors (i) general government and (ii) other sectors.

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

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

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

2. Portfolio investment: Portfolio investment covers remittances received from (credit) and paid to (debit) on account of equity securities (share) and debt securities in the form of bonds and notes, money market instrument and financial derivatives. Information on portfolio investment are collected through banks. Steps have also been taken to collect additional information through enterprise surveys.

3. 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 other loans from the Fund), currency and deposits and other assets and liabilities.

4. Reserve Assets: Data on international reserves comprise monetary gold, SDR, reserve position in the Fund and foreign exchange, which are collected from the internal records of the State Bank of Pakistan, authorized dealers (Banks) and IMF.

3. Errors & Omissions

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

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

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

REGIONS/COUNTRIES AND TERRITORIES

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

The statements have also been compiled for the following country groups viz., Organization of Islamic Conference (O.I.C.), Middle East, European Economic Community (E.E.C.), Eastern Europe, 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 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, Bahrain, Bangladesh, Brunei, Cameroon, Chad, Comoros Islands, Djibouti, Egypt, Gabon, Gambia, Bissau, Indonesia, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Malaysia, Maldives, Mali, Mauritania, Morocco, Niger, Nigeria, Oman, Qatar, Saudi Arabia, Senegal, Sierra Leone, Somalia, Sudan, Syria, Tunisia, Turkey, Uganda, United Arab Emirates, Upper Volta, 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 Economic Community:

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

(iv) Eastern Europe:

Albania, Belarus, Bosnia, Bulgaria, Croatia, Moldova, Romania, Russian Federation, Serbia, 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, Andorra, Angola, Antigua & Barbuda, Argentina, Armenia, Australia, Azerbaijan, Bahamas, Barbados, Belize, Benin, 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, Georgia, Ghana, Gibraltar, Greenland, Grenada, Guadeloupe, Guam, Guatemala, Guyana, Haiti, Honduras, Iceland, India, Ivory Coast, Jamaica, Kampuchea-Democratic, Kazakhstan, Kenya, Korea-Democratic People's Republic, Korea-Republic of, Kyrgyzstan, Laos, Leeward Island, Lesotho, Liberia, Macao, Madagascar, Malawi, Maldives, Martinique, Myanmar, Mauritius, Mexico, Mongolia, People's Republic of Mozambique, Namibia, Nepal, Netherlands Antilles, New Caledonia, New Zealand, Nicaragua, Norfolk Island, Norway, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Reunion Islands, Rwanda, Seychelles, Singapore, Solomon Islands, Sri Lanka, St. Helena, St. Pierre and Miquelon, Suriname, Swaziland, Switzerland, Tajikistan, Tanzania, Thailand, Togo, Trieste, Trinidad and Tobago, Turkmenistan, Uruguay, Uzbekistan, Venezuela, Viet Nam, Virgin Islands, Western Samoa, Zaire, Zambia, Zimbabwe and others not stated above.