

Review on Pakistan's Balance of Payments

July 2006 - June 2007

Pakistan's balance of payments showed a deficit of \$ 6,878 million in its current account balance during 2006-07 as against a deficit of \$ 4,990 million during 2005-06. The deterioration of \$ 1,888 million in current account balance as compared to last year was the combined effect of higher net payments of \$ 1,270 million and \$ 915 million under goods and income accounts respectively, offset partly through lower net payment \$ 260 million under services and higher net receipts by \$ 37 million under current transfer.

The capital and financial account showed a net inflow of \$ 10,449 million and increased by \$ 4,378 million over net inflows of previous year resulting in an increase of \$ 2,396 million in overall surplus during the year 2006-07. On quarterly basis, the overall balance registered deficits of \$ 670 million in first quarter while surpluses of \$ 595 million, \$ 502 million and \$ 3,303 million were observed in second, third and fourth quarters of financial year 2006-07.

The quarterly and annual balance of payments position is summarized below: -

(Million US \$)

ITEM	2006-07(QUARTERLY)				ANNUAL	
	Jul - Sep	Oct - Dec	Jan- Mar	Apr - Jun	2006-07	2005-06
Current Account Balance	-2,722	-1,912	-1,534	-710	-6,878	-4,990
Trade balance (Goods)	-2,742	-2,566	-2,312	-2,091	-9,711	-8,441
Exports f.o.b.	4,191	4,202	4,142	4,743	17,278	16,553
Imports f.o.b.	-6,933	-6,768	-6,454	-6,834	-26,989	-24,994
Services (net)	-1,393	-1,066	-1,014	-697	-4,170	-4,430
Income (net)	-840	-971	-804	-967	-3,582	-2,667
Current transfers (net)	2,253	2,691	2,596	3,045	10,585	10,548
General govt.	59	128	54	284	525	681
Other sectors	2,194	2,563	2,542	2,761	10,060	9,867
Capital account (net)	87	88	71	58	304	241
Financial account	1,597	2,366	2,416	3,766	10,145	5,830
Errors and Omissions (net)	368	53	-451	189	159	253
Overall balance	-670	595	502	3,303	3,730	1,334
Reserves and related items	670	-595	-502	-3,303	-3,730	-1,334
Reserves assets	680	-652	-492	-3,246	-3,710	-1,136
Use of Fund Credits & Loans	-10	-43	-10	-57	-120	-143
Exceptional financing	0	100	0	0	100	-55

Merchandise Trade

During 2006-07 exports and imports of goods (general merchandise plus repairs of goods and goods procured in ports by carriers) were \$ 17,278 million and \$ 26,989 million while the same in 2005-06 were \$ 16,553 million and \$ 24,994 million respectively.

During current financial year, the trade deficit widened by \$ 1,270 million to reach \$ 9,711 million compared to \$ 8,441 million during the preceding financial year. Both exports and imports went up during 2006-07 over 2005-06; imports, however, at a higher rate than exports. The ratio of exports to imports fell from 66.2 (2005-06) to 64.0 (2006-07). A widening trade deficit was due to increase in imports by \$ 1,995 million or 8.0 percent, offset partly by increase of \$ 725 million or 4.4 percent in exports.

The quarterly and annual positions of exports and imports by source are as follows: -

(Million US \$)

ITEM	2006-07 (QUARTERLY)				ANNUAL	
	Jul – Sep	Oct -Dec	Jan –Mar	Apr -Jun	2006-07	2005-06
Trade Balance	-2,742	-2,566	-2,312	-2,091	-9,711	-8,441
Exports (I+II+III)	4,191	4,202	4,142	4,743	17,278	16,553
I. General merchandise exports (f.o.b.)	4,153	4,162	4,102	4,702	17,119	16,388
(a) Exchange record	3,840	3,768	3,925	4,302	15,835	14,817
i) F.o.b. & c.f. basis	3,977	3,900	4,039	4,393	16,310	15,311
ii) Freight adjustment	-137	-132	-114	-91	-475	-494
(b) Timing adjustment	-36	175	22	109	270	363
(c) Coverage adjustment	349	219	156	291	1,015	1,208
II. Repairs of goods	0	0	0	0	0	1
III. Goods procured in ports by carriers	38	40	40	41	159	164
Imports (I+II+III)	6,933	6,768	6,454	6,834	26,989	24,994
I. General merchandise imports (f.o.b.)	6,824	6,681	6,359	6,751	26,615	24,624
(a) Exchange record	6,558	6,260	5,983	6,358	25,159	22,997
(b) Personal baggage, NRI & duty free shops	49	27	23	85	183	337
(c) Foreign economic assistance	157	147	219	224	747	814
(d) Others	60	247	134	85	526	476
II. Repairs of goods	27	26	33	29	115	101
II.1. Goods procured in ports by carriers	82	61	62	54	259	269

The general merchandise transactions reported through banks (export receipts) on a mixed f.o.b and c&f basis amounted to \$ 16,310 million as compared to \$ 15,311 million a year earlier. The General merchandise export at a uniform f.o.b are arrived at by deducting the element of freight amounting to \$ 475 million, adding adjustments of timing (outstanding export bills) of \$ 270 million and other exports of \$ 1,015 million not covered through banking channel in 2006-07.

Major commodities groups constituting 88 percent of total export receipts during FY07 in descending order except others group are shown below along with export receipts during FY06: -

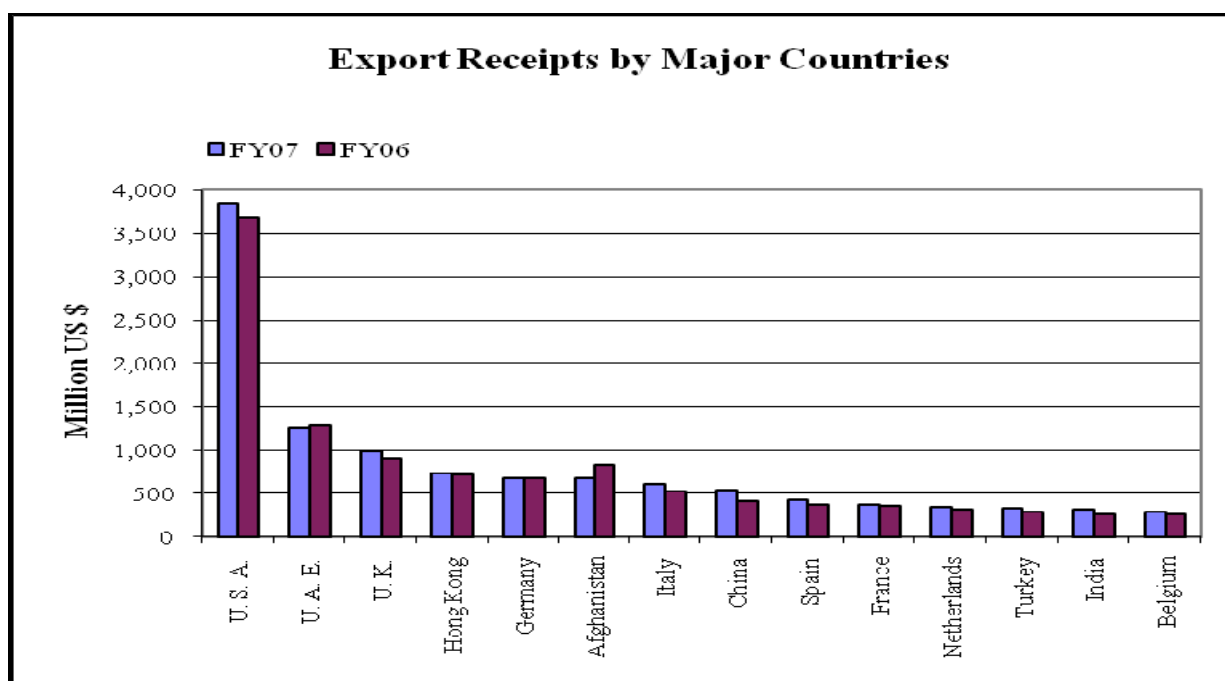
(Million US \$)

Commodity	2006-07 (Quarterly)				Annual	
	Jul – Sep	Oct -Dec	Jan –Mar	Apr -Jun	2006-07	2005-06
Cotton, clothing & textile group:						
Cotton	864	853	823	860	3,401	3,197
Articles of Apparel & Clothing Accessories Knit/Cr	586	527	481	527	2,121	1,954
Other Made-up Textile Articles; Sets, Worn Clothing	473	491	507	514	1,986	1,848
Articles of Apparel/Clothing Acces not Knited /Cro	271	255	266	290	1,081	929
Cereals	249	247	344	360	1,199	1,039
Mineral Fuels, Oils and Their Distillation Product	211	193	221	263	888	779
Special Woven Fabrics, Tufted Textiles Fabrics, Lace	131	127	131	142	531	526
Toys, Games and Sports Requisites; Parts & Acces.	93	79	77	106	356	418
Leather & manufactures of leather group:						
Raw Hides, Skins and Leather other than Fur skins	129	118	115	144	505	472
Articles of Leather, Travel Goods and Handbags etc	97	98	91	97	383	547
Man-Made Staple Fibers	46	82	89	96	313	196
Carpets and other Textile Floor Coverings	61	68	63	67	260	271
Optical, Photographic, Measuring and Medical Inst.	54	57	53	66	230	216
Man-Made Filaments	49	49	57	52	207	209
Fish and Crustaceans	37	44	39	45	164	163
Salt, Sulfur, Earth's and Stones, Lime and Stone	39	25	46	50	161	123
Plastics and Articles thereof	42	38	41	38	159	237
Silk	34	42	24	49	149	80
Electrical Machinery & Equipment and Parts thereof	36	47	26	36	145	135
Edible Fruits and Nuts	35	27	54	26	141	137
All Others	439	436	489	565	1930	1835
Grand Total	3,977	3,900	4,039	4,393	16,310	15,311

The commodity-wise analysis of export receipts revealed that cotton, clothing & textile group fetched the highest foreign exchange of \$ 8,589 million or 52.7 percent of total export receipts during the current year. Cereals group was the second largest foreign exchange earner with 7.4 percent share at \$1,199 million.

Country-wise pattern of export receipts showed that during FY07, USA was the prominent buyer of Pakistani merchandise contributing to an amount of \$ 3,844 million. The second highest buyer was UAE that imported goods worth \$ 1,263 million from Pakistan.

The country-wise comparison of export receipts during 2006-07 along with 2005-06 is exhibited in the figure given below: -



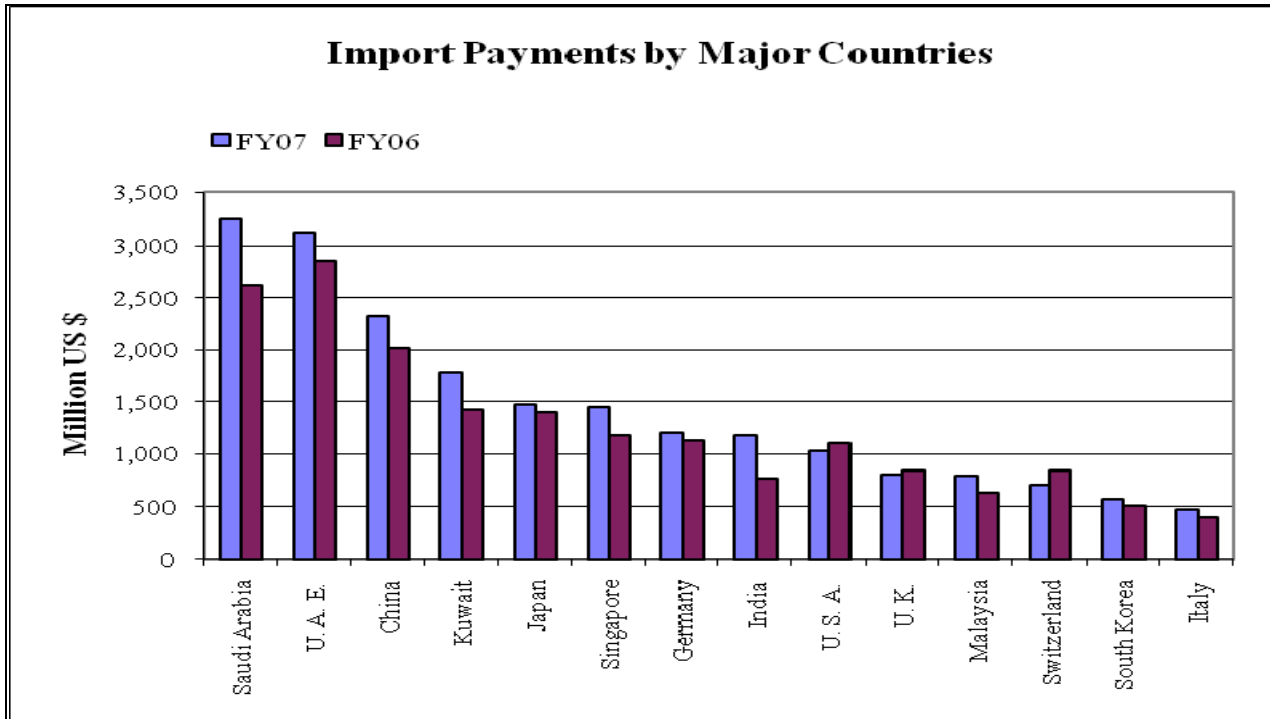
The General merchandise (imports) recorded a rise of \$ 1,991 million or 8.1 percent over the previous year. Of the total imports payments, \$ 25,159 million or 94.5 percent were reported by banks while those under foreign economic assistance, personal baggage & NRI, sale of duty free shops and others taken together amounted to \$ 1,456 million or 5.5 percent.

Principal commodities groups constituting 88 percent of total import payments reported by banks during 2006-07 in descending order except other groups are shown below along with import payments during 2005-06: -

(Million US \$)

Commodity	2006-07 (Quarterly)				Annual	
	Jul – Sep	Oct -Dec	Jan –Mar	Oct -Dec	2006-07	2005-06
Mineral Fuels, Oils and Their Distillation Product	2,217	1,783	1,682	2,008	7,691	6,209
Nuclear Reactors, Boilers, Machinery and Appliance	618	691	752	703	2,763	2,705
Electrical Machinery & Equipment and Parts thereof	553	516	514	495	2078	1844
Organic Chemicals	324	381	342	343	1,390	1,353
Vehicles other than Railway /Tramway Rolling Stock	314	320	290	255	1,180	1,206
Iron and Steel	262	270	287	315	1,134	1,387
Special Classification Provisions	300	253	167	354	1,074	826
Plastics and Articles thereof	237	258	264	276	1,035	920
Animal or Vegetable Fats, Oils & Cleavage Products	214	251	204	279	948	787
Cotton	123	120	236	201	680	483
Fertilizers	118	134	26	131	409	642
Oil Seeds and Oleaginous Fruit	41	153	105	91	390	286
Sugars and Sugar Confectionery	282	58	9	16	366	692
Optical, Photographic, Measuring and Medical Inst.	97	92	92	85	365	304
Paper and Paperboard, Articles of Paper Pulp	74	69	107	85	334	276
Miscellaneous Chemical Products	73	85	75	90	323	327
Articles of Iron or Steel	74	115	66	47	302	254
Edible Vegetables	77	75	81	45	277	191
Rubbers and Articles thereof	75	68	64	70	276	281
Organic or Inorganic Compounds of Precious Metals	62	64	69	54	250	224
All Others	772	748	784	794	3,099	2,995
Grand Total	6,906	6,505	6,215	6,738	26,364	24,193

The country-wise comparison of import payments including freight during 2006-07 along with 2005-06 is exhibited in the figure given below:-



Services

The deficit in services account decreased by \$ 260 million from \$ 4,430 million in 2005-06 to \$ 4,170 million in 2006-07. The aggregate receipts of services transactions during 2006-07 increased by \$ 371 million or 9.8 percent to \$ 4,140 million from \$ 3,769 million during 2005-06 and aggregate payments went up by \$ 111 million or 1.4 percent to \$ 8,310 million from \$ 8,199 million during 2005-06. The higher receipts were recorded under government services, transportation services and other business services. The rise in outflows of services account was due to transportation, other business and travel services.

The item-wise receipts and payments in services account are as follows:

ITEM	(Million US \$)					
	2006-07			2005-06		
	Credit	Debit	Net	Credit	Debit	Net
Services	4,140	8,310	-4,170	3,769	8,199	-4,430
1. Transportation	1,102	3,177	-2,075	1,080	2,863	-1,783
1.1 Passenger	646	521	125	656	453	203
1.2 Freight	127	2,224	-2,097	124	2,083	-1,959
1.3 Other	329	432	-103	300	327	-27
2. Travel	277	1,625	-1,348	216	1,411	-1,195
2.1 Business	15	62	-47	8	57	-49
2.2 Personal	262	1,563	-1,301	208	1,354	-1,146
3. Communications services	123	98	25	198	101	97
4. Construction services	74	60	14	16	143	-127
5. Insurance services	30	126	-96	29	131	-102
6. Financial services	74	135	-61	70	133	-63
7. Computer and information services	104	90	14	72	44	28
8. Royalties and license fees	41	115	-74	33	99	-66
9. Other business services	459	2,557	-2,098	391	2,953	-2,562
10. Personal, cultural, and recreational services	2	0	2	1	6	-5
11. Government services.	1,854	327	1,527	1,663	315	1,348

Income

The income deficit of \$ 2,667 million in 2005-06 increased by \$ 915 million during 2006-07 to \$ 3,582 million. The net outflows of direct investment income rose to \$ 2,809 million during 2006-07 as compared with \$ 2,076 million during 2005-06. Also net outflows of portfolio investment income and other investment income increased by \$ 166 million & \$ 17 million respectively during 2006-07 over 2005-06.

The details of receipts and payments under “Income” are as under:

(Million US \$)

ITEM	2006-07			2005-06		
	Credit	Debit	Net	Credit	Debit	Net
Income	940	4,522	-3,582	784	3,451	-2,667
1. Compensation of employees	7	1	6	6	1	5
2. Investment income	933	4,521	-3,588	778	3,450	-2,672
2.1 Direct investment	30	2,839	-2,809	39	2,115	-2,076
2.1.1 Income on equity	30	2,839	-2,809	39	2,115	-2,076
2.1.2 Income on debt (interest)	0	0	0	0	0	0
2.2 Portfolio investment	348	607	-259	357	450	-93
2.2.1 Income on equity (dividends)	6	266	-260	2	88	-86
2.2.2 Income on debt (interest)	342	341	1	355	362	-7
2.3 Other investment	555	1,075	-520	382	885	-503
2.3.1. IMF charges	0	23	-23	0	16	-16
2.3.2. Interest on External debt	0	674	-674	0	626	-626
2.3.2.1 Civil	0	666	-666	0	618	-618
2.3.2.2. Military	0	8	-8	0	8	-8
2.3.3. Commercial (Medium & short)	0	11	-11	0	8	-8
2.3.4. IDB (Medium & short-term)	0	10	-10	0	14	-14
2.3.5. Interest on private sector debt	0	154	-154	0	85	-85
2.3.6. Other investment income	555	203	352	382	136	246

Current Transfers

The net inflows of current transfers amounted to \$10,585 million during 2006-07 as compared with \$ 10,548 million in the previous year showing an increase of \$ 37 million. The net decrease in general government transfers was \$ 156 million during 2006-07, where the net inflows were \$ 525 million in current year as compared to \$ 681 million in 2005-06. This decrease is mainly due to decline in cash grants of \$ 180 million for budgetary supports as compared to last fiscal year. The net transfers in other sectors increased by \$ 193 million due to higher receipts under workers' remittances of \$ 894 million.

The details of receipts and payments under "Current Transfers" are as follows: -

(Million US \$)

ITEM	2006-07 (Quarterly)				Annual	
	Jul - Sep	Oct - Dec	Jan- Mar	Apr - Jun	2006-07	2005-06
<i>Current transfers (net)</i>	2,253	2,691	2,596	3,045	10,585	10,548
<i>Current transfers receipts</i>	2,268	2,706	2,614	3,070	10,658	10,655
General government	61	129	63	295	548	715
Saudi oil facility	0	0	0	0	0	0
Cash grants for budgetary support	0	29	40	215	284	464
Others	61	100	23	80	264	251
Other sectors	2,207	2,577	2,551	2,775	10,110	9,940
Workers remittances	1,233	1,335	1,369	1,557	5,494	4,600
Residents FCAs	-50	74	41	131	196	312
Others	1,024	1,168	1,141	1,087	4,420	5,028
<i>Current transfers payments</i>	15	15	18	25	73	107
General government	2	1	9	11	23	34
Other sectors	13	14	9	14	50	73

Capital & Financial Account

The net inflow in capital & financial account during 2006-07 stood at \$ 10,449 million as against \$ 6,071 million during the previous year. The net capital inflow amounted to \$ 304 million in current period as against net inflow of \$ 241 million in 2005-06. The project grant increased by \$ 75 million in 2006-07 compared to previous year. The net inflow in financial account during 2006-07 stood at \$ 10,145 million as against a net inflow of \$ 5,830 million in the previous year.

The quarterly and annual position of the capital & financial account is given below -

(Million US \$)

ITEM	2006-07 (Quarterly)				Annual	
	Jul - Sep	Oct - Dec	Jan- Mar	Apr - Jun	2006-07	2005-06
Capital and Financial Account (net)	1,684	2,454	2,487	3,824	10,449	6,071
Capital Account (net)	87	88	71	58	304	241
<i>Of which</i>						
-Debt Forgiveness	0	0	0	0	0	0
-Project Grant	82	64	64	47	257	182
Financial Account (net)	1,597	2,366	2,416	3,766	10,145	5,830
1- Direct Investment	974	849	1,955	1,248	5,026	3,450
2-Portfolio Investment	88	1207	392	1596	3,283	986
3-Other Investment	535	310	69	922	1,836	1,394

The inflow of foreign loans/credits including short-term loans stood at \$ 3,530 million as compared with \$ 2,789 million in the previous year. Of the total disbursement of long-term loans of \$ 3,305 million, \$ 921 million were received for financing of different projects while \$ 1,523 million were non-projects loans. An amount of \$ 225 million was received from Islamic Development Bank (IDB) for import of crude petroleum during the year as against \$ 169 million in the previous year. The repayment of long-term loans/credits stood at \$ 1,433 million during the current year as against \$ 1,379 million in the previous year. The repayment of short-term loans/credits stood at \$ 308 million during current year as against \$ 387 million during the previous year.

The annual position of utilization and repayment of foreign loans/credits is given below: -

I T E M	(Million US \$)	
	2006-07	2005 - 06
1.Utilization of foreign loans / credits	3,530	2,789
I) Long-term	3,305	2,620
Official	2,444	2,069
a) Project loans	921	696
b) Non-project loans	1,523	1,373
i) Food	0	0
ii) Non-food	1,523	1,373
Private un-guaranteed	861	551
II) Short-term	225	169
Official	225	169
Private un-guaranteed	0	0
2. Repayment of foreign loans /credits	1,741	1,766
I) Long-term	1,433	1,379
Official	1,031	1,059
Civil	985	999
Military	46	60
Private un-guaranteed	402	320
II) Short-term	308	387
Official	308	387
Private un-guaranteed	0	0

The interest paid on public and publicly guaranteed loans amounted to \$ 695 million whereas interest on un-guaranteed private loans stood at \$ 154 million. An amount of \$ 23 million was paid to International Monetary Fund (IMF) as charges.

The details of interest on external debt / liabilities are as under:--

(Million US \$)		
ITEM	2006-07	2005-06
1. Medium and long-term	666	618
2. Military	8	8
3. Commercial	11	8
4. IDB	10	14
Total public and publicly guaranteed	695	648
5. Private un-guaranteed debt	154	85
6. IMF charges	23	16
7. Other Interest	364	264
Total Interest	1,236	1,013

Reserves

In context of an overall surplus of \$ 3,730 million, reserves position showed a net increase of \$ 3,830 million with net receipts of \$ 100 million under the exceptional financing during the year. Reserves held by the Central Bank i.e. State Bank of Pakistan (including SDR) and Deposit Money Banks increased to \$ 3,537 million and \$ 173 million respectively during the year. The repurchases / repayments of \$ 120 million (SDR 81 million) were made to IMF during the year as against \$ 143 million (SDR 98 million) in last year.

The quarter-wise and annual position of reserves is as under: -

ITEM	2006-07 (Quarterly)				Annual	
	Jul – Sep	Oct – Dec	Jan – Mar	Apr – Jun	2006-07	2005-06
Reserves (1 plus 2)	670	-695	-502	-3,303	-3,830	-1,279
1. Central bank (net)	570	-531	-681	-3,015	-3,657	-922
1.1 Reserves	580	-488	-671	-2,958	-3,537	-779
1.2 Reserves position in the Fund	0	0	0	0	0	0
1.3 Use of Fund credit & loans from the Fund	-10	-43	-10	-57	-120	-143
i) Purchases/ drawings	0	0	0	0	0	0
a) PRGF	0	0	0	0	0	0
b) Extended fund facility	0	0	0	0	0	0
ii) Repurchases/Repayments	-10	-43	-10	-57	-120	-143
a) Stand – by arrangement	0	0	0	0	0	-39
b) Extended fund facility	-5	-9	-5	-9	-28	-27
c) PRGF	-5	-34	-5	-48	-92	-77
2. Deposit Money Banks	100	-164	179	-288	-173	-357
2.1 Reserves (Balance with authorized Dealers)	100	-164	179	-288	-173	-357