###### Review on Pakistan’s Balance of Payments

###### July 2007 - June 2008

Pakistan’s balance of payments showed a deficit of $ 13,874 million in its current account balance during 2007-08 as against a deficit of $ 6,878 million during 2006-07. The deterioration of $ 6,996 million in current account balance compared to last year was the combined effect of higher net payments of $ 5,259 million, $ 2,287 million and $ 341 million under goods, services and income accounts respectively, offset partly through higher net receipts by $ 891 million under current transfer.

The capital and financial account showed a net inflow of $ 8,252 million reflecting a decrease of $ 2,024 million over the previous year; thus resulting in a decrease of $ 9,064 million in overall deficit during the year 2007-08. On quarterly basis, the overall balance registered deficits of $ 1,244 million, $ 2,269 million, $ 2,059 million in second, third and fourth quarters while a surplus of $ 65 million was recorded in first quarter of financial year 2007-08.

**Merchandise Trade**

During 2007-08 exports and imports of goods (general merchandise, repairs on goods and goods procured in ports by carriers) were $ 20,427 million and $ 35,397 million while the same were $ 17,278 million and $ 26,989 million respectively in 2006-07.

During current financial year, the trade deficit widened by $ 5,259 million to reach $ 14,970 million compared to $ 9,711 million during the preceding financial year. Both exports and imports went up during 2007-08 over 2006-07; imports, however, at a higher rate than exports. The ratio of exports to imports fell from 64.0 in 2006-07 to 57.7 in 2007-08. The widening trade deficit was due to increase in imports by $ 8,408 million or 31.2 percent, offset partly by an increase of $ 3,149 million or 18.2 percent in exports.

The general merchandise transactions reported through banks (export receipts) on a mixed f.o.b and c&f basis amounted to $ 18,483 million compared to $ 16,310 million a year earlier. The general merchandise exports at a uniform f.o.b are arrived at by deducting freight amounting to $ 360 million, adding adjustments of timing (outstanding export bills) of $ 577 million and other exports of $ 1,507 million not covered through banking channel in 2007-08.

Major commodities groups constituting 86 percent of total export receipts during FY08 in descending order except others group are shown below along with export receipts during FY07:

Commodity-wise analysis of export receipts revealed that cotton, clothing & textile group fetched the highest foreign exchange of $ 9,232 million or 49.9 percent of total export receipts during the current year. Cereals group at $ 1,597 million was the second largest foreign exchange earner with 8.6 percent share.

The country-wise comparison of export receipts by major countries during 2007-08 with 2006-07 is exhibited in Figure 1.

Country-wise pattern of export receipts showed that during FY08, USA was the prominent buyer of Pakistani merchandise contributing an amount of $ 3,740 million. The second highest buyer was UAE that imported goods worth $ 1,722 million from Pakistan.

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The general merchandise (imports) recorded a rise of $ 8,413 million or 31.6 percent over the previous year. Of the total imports payments against general merchandise (f.o.b), $ 32,835 million or 93.74 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 $ 2,192 million or 6.26 percent.

Major commodities groups constituting 85 percent of total import payments reported by banks during 2007-08 in descending order except other groups are shown below together with import payments during 2006-07

The country-wise comparison of import payments of major countries including freight during 2007-08 with 2006-07 is exhibited in Figure 2.

Country-wise pattern of import payments showed that during FY08, UAE was the prominent importer of Pakistan and the second highest importer was Saudi Arabia.

**Services**

Deficit in services account increased from $ 4,170 million in 2006-07 to $ 6,457 million in 2007-08. The aggregate receipts of services transactions during 2007-08 decreased by $ 551 million or 13.3 percent to $ 3,589 million from $ 4,140 million during 2006-07 and aggregate payments went up by $ 1,736 million or 20.9 percent to $ 10,046 million from $ 8,310 million during 2006-07. The higher receipts were recorded under government services, transportation services and other business services. The rise in payments of services account was due to transportation, other business and travel services.

**Income**

Income deficit of $ 3,923 million in 2007-08 increased by $ 341 million compared to $ 3,582 million during 2006-07. The net outflow of direct investment income rose to $ 3,065 million during 2007-08 compared with $ 2,809 million during 2006-07. Also net outflow of portfolio investment income and other investment income increased by $ 65 million & $ 24 million respectively during 2007-08 over 2006-07.

The details of receipts and payments under “Income” are given in the table.

#### Current Transfers

The net inflow of current transfers amounted to $ 11,476 million during 2007-08 as compared with $ 10,585 million in the previous year showing an increase of $ 891 million. The net decrease in general government transfers was $ 97 million during 2007-08 where the net inflows were $ 428 million in current year compared to $ 525 million in 2006-07. This decrease is mainly due to decline in cash grants of $ 189 million against others as compared to last fiscal year. Other sectors’ transfers (net) increased by $ 1024 million due to higher receipts of $ 957 million under workers’ remittances.

**Capital & Financial Account**

The net inflow in capital & financial account during 2007-08 stood at $ 8,252 million as against $ 10,276 million during the previous year. The net capital inflow amounted to $ 121 million in current period as against $ 304 million in 2006-07. The project grant decreased by $ 146 million in 2007-08 as compared to previous year. The net inflow in financial account during 2007-08 stood at $ 8,131 million as against $ 9,972 million in the previous year.



The inflow of foreign loans/credits including short-term loans stood at $ 4,131 million compared with $ 3,530 million in the previous year. Of the total disbursement of long-term loans of $ 3,431 million, $ 1,250 million were for financing of various projects while $ 1,104 million were non-projects loans. An amount of $ 700 million was received from Islamic Development Bank (IDB) during the year as against $ 225 million in the previous year. The repayment of long-term loans/credits stood at $ 1,606 million during the current year as against $ 1,741 million in the previous year. The repayment of short-term loans/credits stood at $ 141 million during current year as against $ 308 million during the previous year.

The interest paid on public and publicly guaranteed loans amounted to $ 762 million whereas interest on un-guaranteed private loans stood at $ 184 million. An amount of $ 18 million was paid to International Monetary Fund (IMF) as charges.

#### Reserves and related items

Foreign exchange reserves held by State Bank of Pakistan (including SDR) decreased by $ 5,680 million during the year. The repurchases / repayments of $ 173 million (SDR 109 million) were made to IMF during the year as against $ 120 million (SDR 81 million) in the last year.

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| **Summary Balance of** |
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|  |  |  |
| **ITEM** | **2007** |  | **2008** |  | **Jul - Jun** |
| Jul – Sep | Oct - Dec |  | Jan - Mar | Apr – Jun |  | 2007-08 | 2006-07 |
|  |  |  |  |  |  |  |
| **Current Account Balance** | **-2230** | **-3827** | **-3636** | **-4181** | **-13,874** | **-6,878** |
| **Current Account Balance without off. transfers** | **-2243** | **-3846** | **-4000** | **-4213** | **-14,302** | **-7,403** |
|  Goods: Exports f.o.b | **4607** | **4696** | **5163** | **5961** | **20,427** | **17,278** |
|  Goods: Imports f.o.b | **6940** | **8547** | **9765** | **10145** | **35,397** | **26,989** |
|  Trade Balance | **-2333** | **-3851** | **-4602** | **-4184** | **-14,970** | **-9,711** |
|  Services: Credit | **617** | **783** | **996** | **1193** | **3,589** | **4,140** |
|  Services: Debit | **2194** | **2548** | **2569** | **2735** | **10,046** | **8,310** |
|  Balance on Goods & Services | **-3910** | **-5616** | **-6175** | **-5726** | **-21,427** | **-13,881** |
|  Income: Credit | **274** | **562** | **434** | **343** | **1,613** | **940** |
|  Income: Debit | **1237** | **1573** | **1182** | **1544** | **5,536** | **4,522** |
|  Of which : Interest payments | **453** | **632** | **479** | **611** | **2,175** | **1,417** |
|  Profit & Dividend | **183** | **320** | **89** | **329** | **921** | **803** |
|  Balance on Gds & Serv. & Inc | **-4873** | **-6627** | **-6923** | **-6927** | **-25,350** | **-17,463** |
|  **Current Transfers.: Credit** | **2696** | **2835** | **3300** | **2787** | **11,618** | **10,658** |
|  Of which: |  |  |  |  | **0** | **0** |
|  Workers' Remittances | **1501** | **1565** | **1662** | **1723** | **6,451** | **5,494** |
|  FCAs Residents | **117** | **166** | **39** | **122** | **444** | **196** |
|  Saudi Oil Facility | **0** | **0** | **0** | **0** | **0** | **0** |
|  Current Transfers :Debit | **53** | **35** | **13** | **41** | **142** | **73** |
| **Capital Account,**  | **4** | **43** | **17** | **57** | **121** | **304** |
|  Capital Account, : Credit | **9** | **44** | **17** | **58** | **128** | **309** |
|  Project Grants | **6** | **39** | **15** | **51** | **111** | **257** |
|  Debt Forgiveness | **0** | **0** | **0** | **0** | **0** | **0** |
|  Others | **3** | **5** | **2** | **7** | **17** | **52** |
|  Capital Account... Debit | **5** | **1** | **0** | **1** | **7** | **5** |
| **Financial Account** | **2667** | **1916** | **1105** | **2443** | **8,131** | **9,972** |
|  Direct Investment Abroad | **-8** | **-26** | **-5** | **-36** | **-75** | **-114** |
|  Dir. Invest. In Rep. Econ. | **1261** | **1062** | **983** | **2104** | **5,410** | **5,140** |
|  Portfolio Investment Assets | **-6** | **2** | **1** | **-2** | **-5** | **-5** |
|  Equity Securities | **-6** | **2** | **1** | **-2** | **-5** | **-5** |
|  Debt Securities | **0** | **0** | **0** | **0** | **0** | **0** |
|  Portfolio Investment Liab. | **23** | **79** | **-158** | **93** | **37** | **3,288** |
|  Equity Securities | **56** | **70** | **-171** | **65** | **20** | **2,310** |
|  Debt Securities | **-33** | **9** | **13** | **28** | **17** | **978** |
|  Financial Derivatives Assets | **0** | **0** | **0** | **0** | **0** | **0** |
|  |  |  |  |  |  |  |

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| **Payments –Overall** |
|  |
|  |  | (Million US Dollars) |
| **ITEM** | **2007** |  | **2008** |  | **Jul – Jun** |
| Jul – Sep | Oct - Dec Dec |  | Jan-Mar | Apr – Jun |  | 2007-08 | 2006-07 |
|  |  |  |  |  |  |  |
|  Financial Derivatives Liabilities | **0** | **0** | **0** | **0** | **0** | **0** |
|  Other Investment Assets | **461** | **483** | **-63** | **-849** | **32** | **-758** |
|  Monetary Authorities | **0** | **0** | **0** | **0** | **0** | **0** |
|  General Government | **5** | **1** | **2** | **-3** | **5** | **0** |
|  Banks | **387** | **649** | **192** | **-703** | **525** | **-636** |
|  Other Sector | **69** | **-167** | **-257** | **-143** | **-498** | **-122** |
|  Other Investment Liab. | **936** | **316** | **347** | **1133** | **2,732** | **2,421** |
|  Monetary Authorities | **0** | **-10** | **0** | **500** | **490** | **-1** |
|  General Government | **531** | **352** | **184** | **694** | **1,761** | **1,308** |
| Disbursements | **872** | **725** | **474** | **983** | **3,054** | **2,669** |
|  Long-term | **710** | **287** | **474** | **883** | **2,354** | **2,444** |
|  Project loans | **363** | **241** | **224** | **422** | **1,250** | **921** |
|  Food loans | **0** | **0** | **0** | **0** | **0** | **0** |
|  Program loans | **347** | **46** | **250** | **461** | **1,104** | **1,523** |
|  Short-term | **162** | **438** | **0** | **100** | **700** | **225** |
|  Commercial loans | **0** | **0** | **0** | **0** | **0** | **0** |
|  IDB loans | **162** | **438** | **0** | **100** | **700** | **225** |
| Amortization | **319** | **373** | **291** | **289** | **1,272** | **1,339** |
|  Long-term | **294** | **257** | **291** | **289** | **1,131** | **1,031** |
|  Short-term | **25** | **116** | **0** | **0** | **141** | **308** |
| Other Liabilities | **-22** | **0** | **1** | **0** | **-21** | **-22** |
|  Banks | **-13** | **108** | **10** | **-39** | **66** | **152** |
|  Other Sector | **418** | **-134** | **153** | **-22** | **415** | **962** |
| Disbursements | **158** | **89** | **269** | **511** | **1,027** | **861** |
| Amortization | **40** | **85** | **121** | **88** | **334** | **402** |
| Other Liabilities | **300** | **-138** | **5** | **-445** | **-278** | **503** |
| Net Errors and Omissions | **-376** | **624** | **245** | **-378** | **115** | **159** |
|  **Overall Balance** | **65** | **-1244** | **-2269** | **-2059** | **-5,507** | **3,557** |
| Reserves and Related Items | **-65** | **1244** | **2269** | **2059** | **5,507** | **-3,557** |
|  Reserve Assets | **43** | **1219** | **2291** | **2127** | **5,680** | **-3,537** |
|  Use of Fund Credit and Loans | **-8** | **-75** | **-22** | **-68** | **-173** | **-120** |
| Purchases /  | **0** | **0** | **0** | **0** | **0** | **0** |
| Repurchases | **8** | **75** | **22** | **68** | **173** | **120** |
| **Exceptional Financing** | **-100** | **100** | **0** | **0** | **0** | **100** |
|  |  |  |  |  |  |  |
| **SBP Reserves** | **13876** | **13372** | **11086** | **8577** | **8577** | **13345** |
|  |  |  |  |  |  |  |