

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.

(Million US \$)

ITEM	2007-08 (QUARTERLY)				ANNUAL	
	Jul - Sep	Oct - Dec	Jan - Mar	Apr - Jun	2007-08	2006-07
Current Account Balance	-2,230	-3,827	-3,636	-4,181	-13,874	-6,878
Trade balance (Goods)	-2,333	-3,851	-4,602	-4,184	-14,970	-9,711
Exports f.o.b.	4,607	4,696	5,163	5,961	20,427	17,278
Imports f.o.b.	-6,940	-8,547	-9,765	-10,145	-35,397	-26,989
Services (net)	-1,577	-1,765	-1,573	-1,542	-6,457	-4,170
Income (net)	-963	-1,011	-748	-1,201	-3,923	-3,582
Current transfers (net)	2,643	2,800	3,287	2,746	11,476	10,585
General govt.	13	19	364	32	428	525
Other sectors	2,630	2,781	2,923	2,714	11,048	10,060
Capital account (net)	4	43	17	57	121	304
Financial account (net)	2,667	1,916	1,105	2,443	8,131	9,972
Errors and Omissions (net)	-376	624	245	-378	115	159
Overall balance	65	-1,244	-2,269	-2,059	-5,507	3,557
<i>Reserves and related items</i>	<i>-65</i>	<i>1,244</i>	<i>2,269</i>	<i>2,059</i>	<i>5,507</i>	<i>-3,557</i>
Reserves assets	43	1,219	2,291	2,127	5,680	-3,537
Use of Fund Credits & Loans	-8	-75	-22	-68	-173	-120
Exceptional financing	-100	100	0	0	0	100

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

(Million US \$)

ITEM	2007-08 (QUARTERLY)				ANNUAL	
	Jul - Sep	Oct - Dec	Jan - Mar	Apr - Jun	2007-08	2006-07
Trade Balance	-2,333	-3,851	-4,602	-4,184	-14,970	-9,711
Exports (I+II+III)	4,607	4,696	5,163	5,961	20,427	17,278
I. General merchandise exports (f.o.b.)	4,562	4,644	5,104	5,897	20,207	17,119
(a) Exchange record	4,200	4,231	4,497	5,195	18,123	15,835
i) F.o.b. & c.f. basis	4,292	4,332	4,585	5,274	18,483	16,310
ii) Freight adjustment	-92	-101	-88	-79	-360	-475
(b) Timing adjustment	-36	124	269	220	577	270
(c) Coverage adjustment	398	289	338	482	1,507	1,015
II. Repairs of goods	0	1	1	0	2	0
III. Goods procured in ports by carriers	45	51	58	64	218	159
Imports (I+II+III)	6,940	8,547	9,765	10,145	35,397	26,989
I. General merchandise imports (f.o.b.)	6,851	8,449	9,672	10,055	35,027	26,614
(a) Exchange record	6,459	7,765	9,257	9,354	32,835	25,158
(b) Personal baggage, NRI & duty free shops	26	30	33	26	115	183
(c) Foreign economic assistance	296	572	152	618	1,638	747
(d) Others	70	82	230	57	439	526
II. Repairs of goods	33	40	17	25	115	116
III. Goods procured in ports by carriers	56	58	76	65	255	259

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.

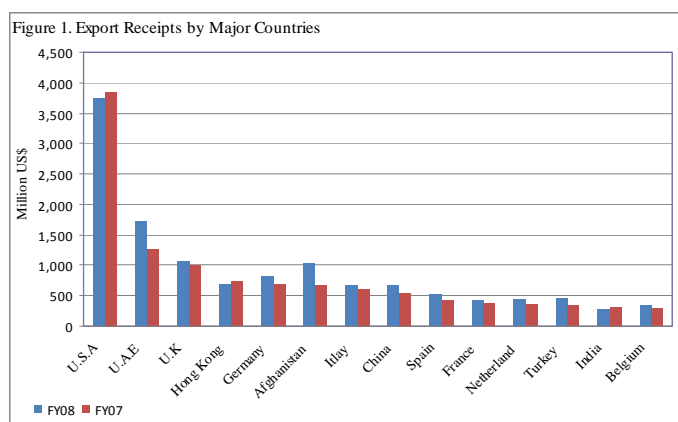
Major commodities groups constituting 86 percent of total export receipts during FY08 in descending order except others group are shown below along with export receipts during FY07:

COMMODITY	2007-08 (QUARTERLY)				ANNUAL	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	2007-08	2006-07
Cotton, clothing & textile group:						
Cotton	861	929	842	872	3,505	3,401
Other Made-up Textile Articles; Sets, Worn Clothing	524	589	626	649	2,388	1,986
Articles of Apparel & Clothing Accessories Knit/Cr	572	513	512	549	2,147	2,121
Articles of Apparel/Clothing Acces not Knitted /Cro.	338	303	264	287	1,192	1,081
Cereals	227	295	431	644	1,597	1,199
Mineral Fuels, Oils and Their Distillation Product	312	294	322	414	1,341	888
Raw Hides, Skins and Leather other than Fur skins	140	141	132	154	566	505
Articles of Leather, Travel Goods and Handbags etc	102	106	102	108	418	383
Salt, Sulfur, Earth's and Stones, Lime and Stone	72	69	113	139	393	161
Man-Made Staple Fibers	85	86	99	118	387	313
Toys, Games and Sports Requisites; Parts & Acces.	84	76	78	103	341	356
Special Woven Fabrics, Tufted Textiles Fabrics, Lace	116	65	76	75	332	531
Optical, Photographic, Measuring and Medical Inst.	61	63	59	77	261	230
Plastics and Articles thereof	47	52	65	97	261	159
Carpets and other Textile Floor Coverings	54	66	60	60	241	260
Edible Fruits and Nuts	40	28	63	38	170	141
Fish and Crustaceans	26	42	44	54	167	164
Man-Made Filaments	37	10	16	20	84	207
Electrical Machinery & Equipment and Parts thereof	24	16	16	18	74	145
All Others	570	589	665	798	2,618	2,079
Grand Total	4,292	4,332	4,585	5,274	18,483	16,310

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.



The general merchandise (imports) recorded a rise of \$ 8,413 million or 31.6 percent over the previous year. Of the total imports payments

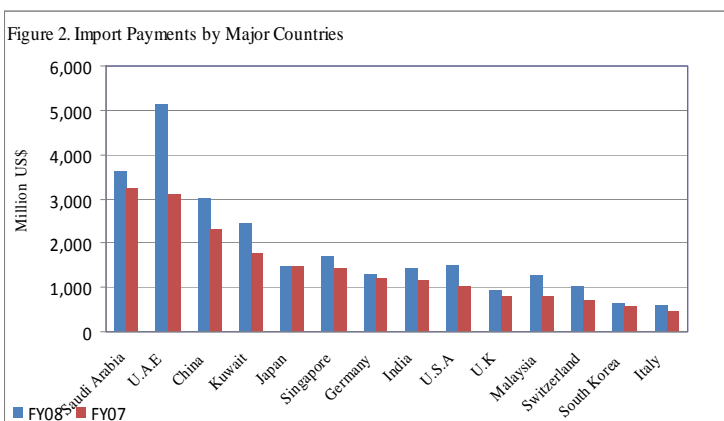
against general merchandise (f.o.b), \$ 32,835 million or 93.74 percent were reported by banks while those under foreign economic assistance, personal baggage & NRI, sale of duty free shops and others taken together amounted to \$ 2,192 million or 6.26 percent.

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

COMMODITY	2007-08 (QUARTERLY)				ANNUAL	
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	2007-08	2006-07
Mineral Fuels, Oils and Their Distillation Product	2,036	2,586	2,614	3,853	11,090	7,691
Nuclear Reactors, Boilers, Machinery and Appliance	630	708	682	803	2,822	2,763
Electrical Machinery & Equipment and Parts thereof	637	668	627	723	2,655	2,078
Organic Chemicals	383	386	466	452	1,687	1,390
Animal or Vegetable Fats, Oils & Cleavage Products	302	450	461	473	1,686	948
Iron and Steel	348	360	358	454	1,520	1,134
Special Classification Provisions	190	410	414	252	1,266	1,074
Plastics and Articles thereof	313	289	329	306	1,238	1,035
Cotton	188	201	532	218	1,139	680
Vehicles other than Railway /Tramway Rolling Stock	326	297	251	260	1,134	1,180
Fertilizers	123	292	182	121	720	409
Oil Seeds and Oleaginous Fruit	143	126	139	81	489	390
Optical, Photographic, Measuring and Medical Inst.	91	94	154	112	451	365
Paper and Paperboard, Articles of Paper Pulp	101	99	112	98	410	334
Rubbers and Articles thereof	72	75	72	72	291	276
Articles of Iron or Steel	49	46	89	79	264	302
Sugars and Sugar Confectionery	12	9	5	7	33	366
All Others	979	1,126	1,592	1,503	5,196	3,949
Grand Total	6,923	8,222	9,079	9,867	34,091	26,364

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

ITEM	2007-08			2006-07		
	Credit	Debit	Net	Credit	Debit	Net
Services	3,589	10,046	-6,457	4,140	8,310	-4,170
1. Transportation	1,035	3,785	-2,750	1,102	3,177	-2,075
1.1 Passenger	631	532	99	646	521	125
1.2 Freight	131	2,959	-2,828	127	2,224	-2,097
1.3 Other	273	294	-21	329	432	-103
2. Travel	264	1,578	-1,314	277	1,625	-1,348
2.1 Business	20	38	-18	15	62	-47
2.2 Personal	244	1,540	-1,296	262	1,563	-1,301
3. Communications services	117	107	10	123	98	25
4. Construction services	37	56	-19	74	60	14
5. Insurance services	54	152	-98	30	126	-96
6. Financial services	43	184	-141	74	135	-61
7. Computer and information services	154	129	25	104	90	14
8. Royalties and license fees	51	130	-79	41	115	-74
9. Other business services	450	3,432	-2,982	459	2,557	-2,098
10. Personal, cultural, and recreational services	4	2	2	2	0	2
11. Government services.	1,380	491	889	1,854	327	1,527

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.

ITEM	2007-08			2006-07		
	Credit	Debit	Net	Credit	Debit	Net
Income	1,613	5,536	-3,923	940	4,522	-3,582
1. Compensation of employees	10	0	10	7	1	6
2. Investment income	1,603	5,536	-3,933	933	4,521	-3,588
2.1 Direct investment	47	3,112	-3,065	30	2,839	-2,809
2.1.1 Income on equity	47	3,112	-3,065	30	2,839	-2,809
2.1.2 Income on debt (interest)	0	0	0	0	0	0
2.2 Portfolio investment	889	1,213	-324	348	607	-259
2.2.1 Income on equity (dividends)	19	249	-230	6	266	-260
2.2.2 Income on debt (interest)	870	964	-94	342	341	1
2.3 Other investment	667	1,211	-544	555	1,075	-520
2.3.1. IMF charges	0	18	-18	0	23	-23
2.3.2. Interest on External debt	0	741	-741	0	674	-674
2.3.2.1 Civil	0	737	-737	0	666	-666
2.3.2.2. Military	0	4	-4	0	8	-8
2.3.3. Commercial (Medium & short)	0	10	-10	0	11	-11
2.3.4. IDB (Medium & short-term)	0	11	-11	0	10	-10
2.3.5. Interest on private sector debt	0	184	-184	0	154	-154
2.3.6. Other investment income	667	247	420	555	203	352

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.

ITEM	2007-08 (Quarterly)				Annual	
	Jul - Sep	Oct - Dec	Jan - Mar	Apr - Jun	2007-08	2006-07
Current transfers (net)	2,643	2,800	3,287	2,746	11,476	10,585
Current transfers receipts	2,696	2,835	3,300	2,787	11,618	10,658
General government	40	27	366	51	484	548
Saudi oil facility	0	0	0	0	0	0
Cash grants for budgetary support	20	10	343	36	409	284
Others	20	17	23	15	75	264
Other sectors	2,656	2,808	2,934	2,736	11,134	10,110
Workers’ remittances	1,501	1,565	1,662	1,723	6,451	5,494
Residents FCAs	117	166	39	122	444	196
Others	1,038	1,077	1,233	891	4,239	4,420
Current transfers payments	53	35	13	41	142	73
General government	27	8	2	19	56	23
Other sectors	26	27	11	22	86	50

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.

ITEM	(Million US \$)					
	2007-08 (Quarterly)				Annual	
	Jul - Sep	Oct - Dec	Jan - Mar	Apr - Jun	2007-08	2006-07
Capital and Financial Account (net)	2,671	1,959	1,122	2,500	8,252	10,276
Capital Account (net)	4	43	17	57	121	304
<i>Of which</i>						
-Project Grant	6	39	15	51	111	257
Financial Account (net)	2,667	1,916	1,105	2,443	8,131	9,972
1- Direct Investment	1261	1062	983	2104	5,410	5026
2-Portfolio Investment	17	81	-157	91	32	3283
3-Other Investment	1,389	773	279	248	2,689	1663

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.

ITEM	(Million US \$)	
	2007-08	2006-07
1. Utilization of foreign loans / credits	4,131	3,530
I) Long-term	3,431	3,305
Official	2,354	2,444
a) Project loans	1,250	921
b) Non-project loans	1,104	1,523
i) Food	0	0
ii) Non-food	1,104	1,523
Private un-guaranteed	1,077	861
II) Short-term	700	225
Official	700	225
Private un-guaranteed	0	0
2. Repayment of foreign loans /credits	1,606	1,741
I) Long-term	1,465	1,433
Official	1,131	1,031
Civil	1,090	985
Military	41	46
Private un-guaranteed	334	402
II) Short-term	141	308
Official	141	308
Private un-guaranteed	0	0

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.

ITEM	(Million US \$)	
	2007-08	2006-07
1. Medium and long-term(Civil)	737	666
2. Military	4	8
3. Commercial (Short Term)	10	11
4. IDB	11	10
Total public and publicly guaranteed	762	695
5. Private un-guaranteed debt	184	154
6. IMF charges	18	23
7. Other Interest	450	364
Total Interest	1,414	1,236

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.

ITEM	(Million US \$)					
	2007-08 (QUARTERLY)				ANNUAL	
	Jul - Sep	Oct - Dec	Jan - Mar	Apr - Jun	2007-08	2006-07
1. Reserves -SBP (net)	35	1,144	2,269	2,039	5,507	-3,657
1.1 Foreign Exchange	43	1,219	2,291	2,127	5,680	-3,537
1.2 Reserves position in the Fund	0	0	0	0	0	0
1.3 Use of Fund credit	-8	-75	-22	-68	-173	-120
i) Purchases/drawings	0	0	0	0	0	0
ii) Repurchases/repayments	-8	-75	-22	-68	-173	-120
a) Extended fund facility	-3	-12	-2	-8	-25	-28
b) PRGF	-6	-63	-20	-59	-148	-92

Summary Balance of

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

Payments –Overall

(Million US Dollars)

ITEM	2007		2008		Jul – Jun	
	Jul – Sep	Oct - 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