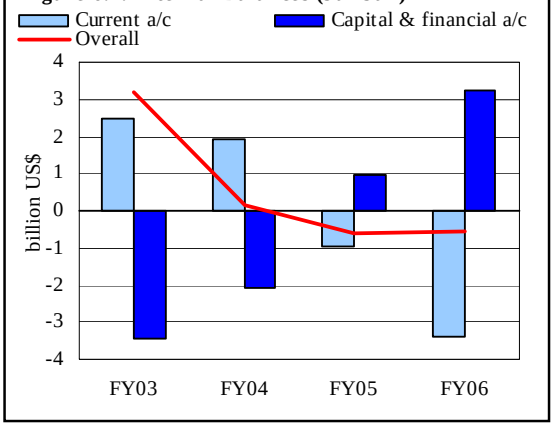
6 External Sector

6.1 Balance of Payments

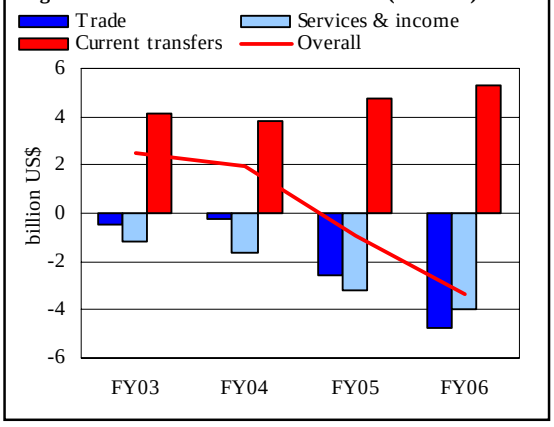
Pakistan's overall balance of payments deficit narrowed only marginally during Jul-Jan FY06, falling to US$ 0.58 billion from US$ 0.61 billion in the corresponding period of FY05 (see **Figure 6.1**). This was because the impact of the substantial US$ 2.4 billion YoY increase in the current account deficit in the period was offset by a sharp rise in the *capital & financial account* surplus. The spot buying exchange rate of the Pak Rupee averaged Rs 59.75 per US$ during Jul-Jan FY06, moving in a narrow range of 31 paisa.

Figure 6.1: External Balances (Jul-Jan)



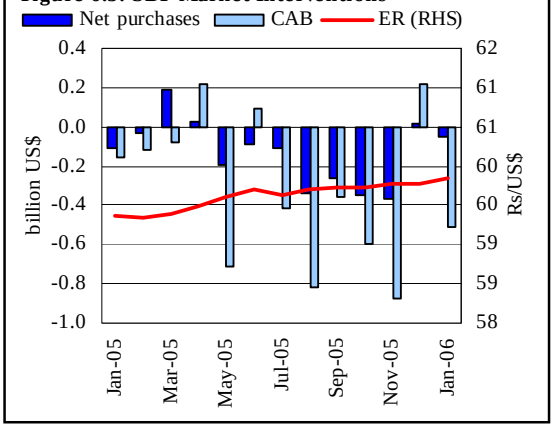
The sharp deterioration in the current account deficit emanated largely from import related activities, i.e., (1) an exceptional surge in imports that outpaced the reasonably strong rise in exports; and (2) higher import freight payments, which increased the services account deficit. Moreover, the current transfers saw modest growth. This combination, i.e., an acceleration in the trade and services deficits together with a deceleration in growth of net transfers, translated into a higher growth of the current account deficit during Jul-Jan FY06 relative to the corresponding period of FY05 (see **Figure 6.2**).

Figure 6.2: Current Account Balance (Jul-Jan)



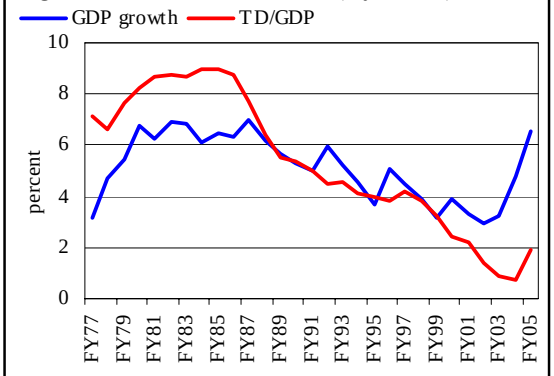
As in the preceding year, a part of the current account deficit was financed through long-term non-debt capital flows and drawdown of reserves; the liquid reserves of the central bank fell by US$ 746.8 million during Jul-Jan FY06, reflecting pressures on the current account (see **Figure 6.3**). However, FY06 financing also included privatization receipts of US$ 255 million.

Figure 6.3: SBP Market Interventions



The strong import-driven rise in the current account deficit in FY06 has given rise to considerable debate on the ability of the economy to sustain this trend. Specifically, concerns have been expressed on the composition of the import growth, the impact on the country's foreign currency reserves, and the potential for a rise in external debt levels.

Figure 6.4: Trade Deficit & GDP (3-year MA)



Note: Trade deficit is based on exchange record.

Unfortunately, the growth in imports cannot be easily contained, as much of it comprises of either capital goods or input for industries. Curtailing these directly would therefore result in a significant fall in economic activities. Indeed, it should be noted that the trade deficit as a percentage of GDP, has traditionally moved in line with growth trends in the economy (see **Figure 6.4**).

In the longer term, however, sustained large current account deficits and the consequent increasing dependency on capital and financial flows could add to the country's external risk. This can be better understood by analyzing the financing

of Pakistan's current account deficit during July-January period of FY05 and FY06 (see **Table 6.1**).

Table 6.1: Pattern of Financing
million US$

	Jul-Jan	
	FY05	**FY06**
Current account balance	-967	-3,368
Financial account balance	-295	2,529
of which		
FDI	515.0	1,226.0
of which		
Privatization proceeds		255.0
Portfolio investment	638.0	310.0
Foreign lLT loans	297.0	323.0
Private loans	-234.0	-22.0
Trade financing	-531.4	672.4

Source: Statistics Department, SBP

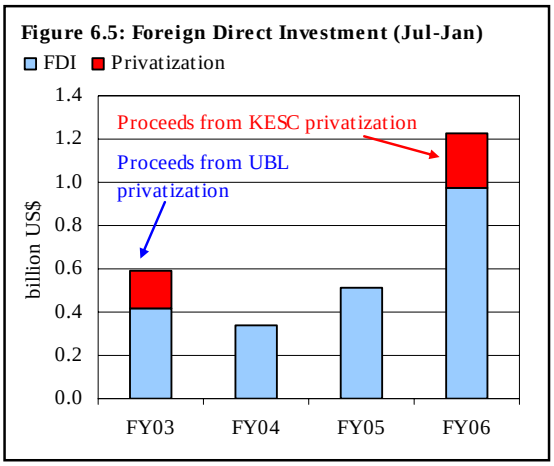
Interestingly, the financial flows were *negative* during Jul-Jan FY05, suggesting a substantial reliance on SBP's reserves to support the current account deficit.[1] The situation however changed during Jul-Jan FY06 when the dependence on SBP's reserves was relatively low compared to the size of the current account deficit. This was possible because the financial flows were positive and financed a significant portion of the current account deficit.

A detailed analysis of the capital & financial flows however raises some concerns on the medium term sustainability of the higher trade deficit.

(a) A substantial part of the improvement in financial flows came from foreign private investment, a large share of which was contributed by rising FDI. While the rise of US$ 711 million in FDI during Jul-Jan FY06 over corresponding period of previous year is a welcome sign, this however includes a significant amount of US$ 255 million of the privatization proceeds which are one-off inflows. Further, as evident from **Figure 6.5**, the investment flows during Jul-Jan FY06 diverge significantly from their historical norms. Historically, though the FDI flows have been persistent, their levels were very low (see **Box 6.1**).

(b) The portfolio investment increased by US$ 308 million during Jul-Jan FY06 over Jul-Jan FY05. These investments (realized mainly in telecommunication, banks and oil & gas sectors) are the outcome of impressive growth performance in these sectors in recent years. However, as the portfolio investment is volatile in nature, these flows may reverse very easily. This raises the vulnerability of the external account of the country to sudden outflows.

[1] Some of the pressures on external account during Jul-Jan FY05 were absorbed through exchange rate depreciation.



(c) The fresh disbursements of the long-term loans witnessed a fall during Jul-Jan FY06 over the corresponding period last year. As a matter of fact, a total of project assistance and non-food aid fell from US$ 1,536 million during Jul-Jan FY05 to US$ 929 million in Jul-Jan FY06. The long-term loans during Jul-Jan FY06 also include some disbursements to support relief operation in earth quake affected areas.[2] Unfortunately the pace of loan disbursement committed for the earthquake financing is still very slow.

(d) Finally, there has been considerable reliance on foreign currency trade loans. These foreign currency loans extended by commercial banks may not have a significant impact on the overall balance of payments position of the country as these banks are simply switching one type of foreign currency assets (i.e., foreign currency holdings) with other assets (i.e., loan assets). However, they have some implication for the inter-bank market, given that these loans can be retired pre-maturely.

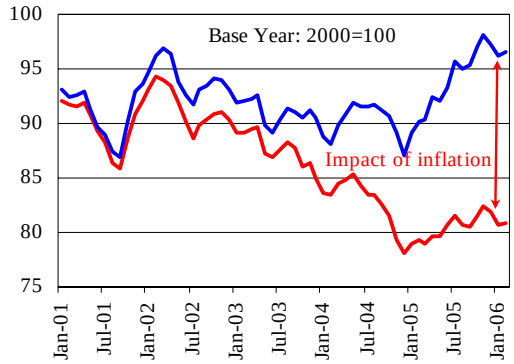
Medium to long-term policy options must therefore revolve around reducing the need for imports (e.g. reducing energy imports by promoting energy efficiency and raising domestic production), promoting exports, and attracting non-debt creating flows (e.g. FDI). Less desirable options would be to fund the current account deficits through privatization receipts and even worse, through higher debt or a drawdown of reserves.

One seemingly obvious path to controlling trade imbalances would be an exchange rate adjustment. In theory, this would result in higher exports and reduced imports (by making them more expensive). However, such adjustments typically have only temporary impacts, and in any case, there are doubts whether

[2] In Jul-Jan FY06, IDA disbursed US$ 200 million as earthquake financing whereas from ADB this financing amounted to US$ 84.5 million.

exchange rate adjustments *alone* are appropriate given indications that capital imports may be more elastic than consumption imports to exchange rate adjustment (see **Box 6.3**).[3]

Figure 6.6: Nominal & Real Effective Exchange Rate

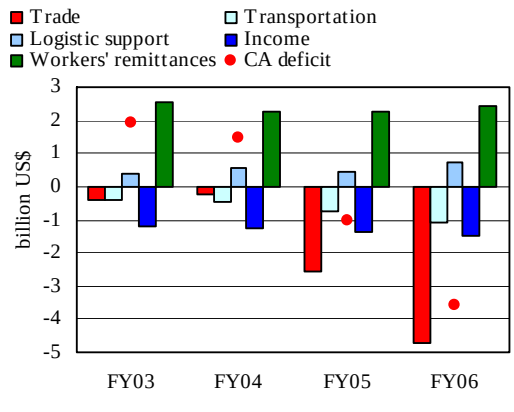


Moreover, this option needs to be exercised with care as it could destabilize the inter-bank markets, with heavy consequent costs, as well as feeding into inflationary pressures. In particular, large and/or abrupt exchange rate adjustment would not be desirable. A better option could be to enhance competitiveness of exports, e.g., by containing inflationary pressures (see **Figure 6.6**), improving better transportation infrastructure (lowering delivery lags, and costs), etc.

6.1.1 Current Account

The current account posted a deficit of US$ 3.4 billion during Jul-Jan FY06, worsening sharply from US$ 0.96 billion in corresponding period last year. More than 80 percent of this US$ 2.4 billion increase in the current account deficit stems from a steep US$ 2.2 billion YoY rise in the trade deficit during Jul-Jan FY06.

Figure 6.7: Current Account Balance (Jul-Jan)



[3] While downward adjustment of the exchange rate would contain the overall import growth, its impact could be more severe on the import of raw material & capital goods than on consumer good imports. This could be true particularly when (a) there are comfortable profit margins in the import of personal cars and cellular phones (relative to import of raw material & capital goods) so that importers are ready to bear the cost of exchange rate changes; (b) consumer loans are easily available; (c) vehicle import rules are relatively relaxed.

Box 6.1: Persistence of Capital and Current Account Flows – The Case of Pakistan

The degree of permanence of key foreign exchange inflows provides a measure of the vulnerability of the external account to adverse economic shocks, since a sudden fall in forex flows during times of stress may accentuate adjustment costs. In this background, this section attempts to gauge the degree of permanence for foreign direct investment, official long term loans, and worker remittances.

The autocorrelation – the correlation between the observations of a time series – provides a measure of persistence, i.e., a higher degree of correlation among the observations of a series implies higher degree of permanence in the variable.[4] While the trends in foreign direct investment, official long term loans, and worker remittances are provided in **Figure B6.1.1**, autocorrelation patterns for these variables are shown in **Figure B6.1.2**. It is clear that workers remittances depict the strongest persistence, followed by FDI and long-term loans.

Thus, worker remittances are a reliable cushion for financing trade deficit. Further, though the FDI flows were also persistent in the period of analysis, their levels have been quite low. Finally, the lack of persistence of official long term loans highlights the risks of relying on these flows as a source of financing the trade deficit.

Figure B6.1.1: Pattern of Capital and Current Accounts (Flows)

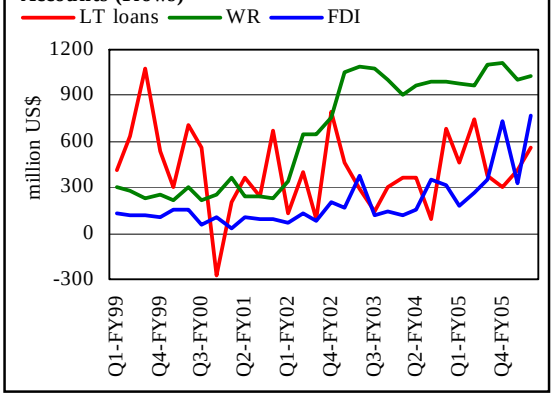
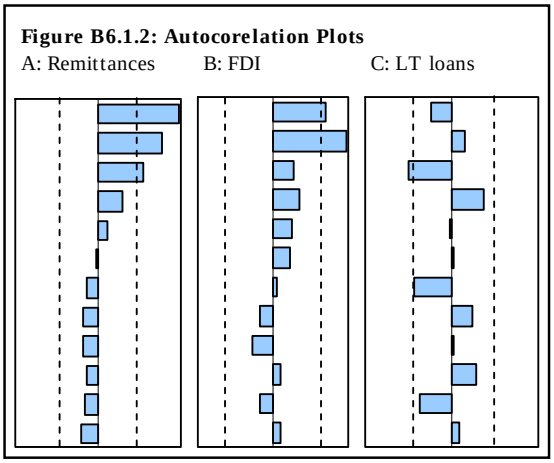


Figure B6.1.2: Autocorelation Plots



[4] Source: A Study on balance of Payments and structure of External Trade Indicators, Joseph Antonio R. Tan III, URL: www.policy.com.ph

While the worker remittances and logistic support inflows showed some improvements, these were offset by: (1) substantial hike in the transportation charges due to higher imports; and (2) higher *net income* outflows (see **Figure 6.7**).

Trade Balance

The trade balance deteriorated sharply from US$ 2.6 billion in Jul-Jan FY05 to US$ 4.7 billion during Jul-Jan FY06 as a very strong import growth of 31 percent outpaced a reasonable 13 percent growth in exports during the period under review. In fact, imports have been witnessing a sharp rise since FY05 on the back of a hike in oil prices as well as rising machinery and industrial raw material imports.

It may be pointed out that the rise of US$ 2.2 billion during Jul-Jan FY06 in trade deficit is based on the exchange record data. On the other hand, the trade deficit based on FBS data shows an increase of US$ 3.6 billion in Jul-Jan FY06 over Jul-Jan FY05. This variance in these two data sources is due to the difference in the data compilation method. **Special Section 1** reconciles the trade numbers obtained from these two data sources.

Services (Net)

The services account deficit continued to widen during Jul-Jan FY06, rising further by 36 percent YoY (US$ 651 million) during the period to reach US$ 2.5 billion (see **Table 6.2**). The major factors responsible for this worsening were:

(1) rising transportation outflows that reflect higher freight charges following the sharp growth in imports;[5]

(2) higher outflows under business services due to the improved coverage of foreign exchange transactions routed through foreign exchange companies (FECs);[6] and

[5] *Transportation* generally reflects receipts/payments on account of shipment services. The net outflow under this head suggests that payments to foreign companies against shipping services are higher than the receipts of Pakistan's shipping company. The rising trade volume generally leads to more outflows under *transportation*.

[6] It has been mentioned in the earlier reports that these outflows have no impact on the overall current account balance as it is matched by the receipts of the FECs (appearing as current transfer inflows under *private transfers*).

(3) an unusual rise of US$ 175 million in *other* outflows mainly due to the payments relating to the construction of Ghazi Brotha Dam (that had been deferred earlier).

Table 6.2: Current Account Balance

million US$

Items	FY04	FY05	Jul-Jan		Change FY06 over FY05
			FY05	FY06	
1. Trade balance	**-1,279**	**-4,514**	**-2,564**	**-4,731**	**-2,167**
Exports	12,459	14,482	8,085	9,172	1,087
Imports	13,738	18,996	10,649	13,903	3,254
2.Services (net)	**-1,316**	**-3,293**	**-1,812**	**-2,463**	**-651**
Transportation	-890	-1,218	-717	-1,085	-368
Travel	-1,034	-995	-604	-723	-119
Communication services	166	272	161	49	-112
Other business services	-332	-2,217	-1,132	-1,303	-171
Government services	905	1,041	579	873	294
of which logistic support	754	831	448	756	308
Other	-131	-176	-99	-274	-175
3. Income (net)	**-2,207**	**-2,386**	**-1,359**	**-1,496**	**-137**
Investment income(net)	-2,208	-2,387	-1,360	-1,498	-138
Direct investment	-1,215	-1,622	-893	-1,135	-242
of which: Profit & dividend	-338	-376	-215	-254	-39
Purchase of crude oil & minerals	-678	-951	-504	-577	-73
Portfolio investment	-201	-154	-95	-69	26
of which: Profit & dividend	-109	-146	-54	-45	9
IMF charges & interest on off. external debt	-708	-656	-369	-376	-7
Interest on private external debt	-131	-108	-71	-47	24
Others	47	153	68	129	61
4. Current transfers (net)	**6,614**	**8,659**	**4,768**	**5,322**	**554**
Private transfers	6,102	8,409	4,732	5,128	396
Workers remittance	3,871	4,168	2,267	2,446	179
FCA - residents	367	521	445	295	-150
Others	1,864	3,720	2,020	2,387	367
Official transfers	512	250	36	194	158
Saudi oil facility	302	0	0	0	0
Cash grants	202	231	17	117	100
Current account balance	**1,812**	**-1,534**	**-967**	**-3,368**	**-2,401**

Source: Statistics Department, SBP

However, these large outflows were substantially compensated by higher inflows against logistic support provided by Pakistan to coalition forces. Specifically, the receipts under this head posted a YoY rise of US$ 308 million to reach US$ 756 million during Jul-Jan FY06.

Income Account

The outflows under *income account* reached US$ 1.5 billion during Jul-Jan FY06, going up by 10 percent (US$ 137 million) on YoY basis. This was mainly caused by higher repatriation of profits on foreign direct investment (FDI) during Jul-Jan FY06, which was partially offset by savings on interest payments on the external debt, and higher earnings on country's foreign exchange reserves during the same period.

The repatriation of profits on FDI increased by US$ 242 million due to more outflows of dividends and return on reinvested earnings; possibly reflecting increased holding of Pakistani assets by foreigners. The repatriation of dividend and return on reinvested earnings together with the fall in profit outflows probably shows expectations of continued growth in corporate profitability. Further, the purchase of crude oil & gas[7] also remained significantly large during this period on account of higher prices (see **Table 6.3**).

Table 6.3: Returns on Direct Investment (Jul-Jan)

million US$

	FY05	FY06	Change
FDI	900	1143	243
Profits	58	22	-36
Dividend	155	232	77
Purchase of oil & gas	503	577	74
Reinvested earnings	184	312	128

Source: Statistics Department, SBP.

The outflows of investment return were however partially compensated by higher earnings on country's international reserves (see **Table 6.4**).

In the case of interest payments, the higher outflows on euro bonds and *sukuk* during Jul-Jan FY06;[8] and the final payment for foreign currency bonds

[7] Purchase of crude oil & gas reflects the amount paid by the government for its share in the crude oil & gas extracted in Pakistan by foreign companies.

[8] These interest payments are accrued on Eurobond of US$ 603 million launched in FY98 (and subsequently restructured) and US$ 500 million issued in FY04, and the *sukuk* of US$ 600 million launched in FY05. With the rising stock of sovereign issues, the interest payments are also swelling.

rescheduled in 1999,[9] were more than offset by savings due to lower interest payments to private creditors.

Table 6.4: Details of Interest Payments and Receipts
million US$

		Jul-Jan		Saving
		FY05	FY06	
Payments (I+II)		**539**	**571**	**-32**
I.	Total external debt	475	478	-3
	Public & publicly guaranteed	392	421	-29
	Long-term	342	348	-6
	Military	11	8	3
	Euro bonds	35	55	-20
	Commercial loans/credits	4	4	0
	IDB	0	6	-6
	Private loans/credits	71	47	24
	IMF	12	10	2
II.	External liabilities	64	93	-29
	Foreign currency deposits	9	12	-3
	Special US$ bonds	19	19	0
	Central bank deposits	11	21	-10
	Others	25	41	-16
Receipts		**111**	**176**	**65**
	Interest on reserves	79	132	53
	Others	32	44	12
Net payments		**-428**	**-395**	**84**

Source: Statistics Department, SBP

Further the interest payments on long-term loans rose only marginally during the period under review largely due to lower interest payments particularly to Paris club creditors. These lower interest payments were the result of the re-profiling of Paris club debt, substantial write-off of US debt stock and prepayment to the ADB and private foreign creditors.

In addition, the interest payments for external liabilities also remained higher during Jul-Jan FY06 relative to the corresponding period of FY05, largely due to a rise in foreign currency loans extended to traders during this period[10] as well as the interest payments made by the foreign companies for the working capital requirements.

These outflows however were more than offset by higher interest receipts on country's international reserves during Jul-Jan FY06, resulting in net savings of US$ 84 million during the period (see **Table 6.4**).

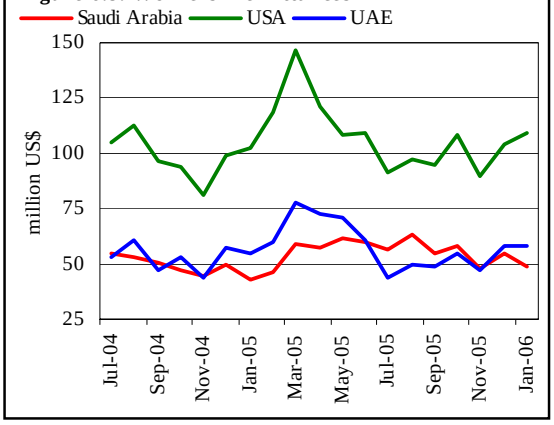
Current Transfers

Current transfers recorded a YoY 12 percent (US$ 554 million) improvement during Jul-Jan FY06. The higher inflows during the period under review were due to rise of US$ 179 million in worker remittances, the receipt of US$ 117 million as cash grant from Saudi Arabia for the budgetary support purposes as well as

[9] A total of US$ 7.7 million final coupon payment was made in December 2005 for the foreign currency bond that was rescheduled in 1999.
[10] Outflows under this head are equally off set by the inflows in the *other receipts*.

US$ 45 million as earthquake grants. This improvement was partially offset by lower inflows into resident FCAs that showed a significant fall of US$ 150 million during Jul-Jan FY06 over Jul-Jan FY05.

Figure 6.8: Workers' Remittances



Workers' Remittances

Worker remittances (cash) recorded a US$ 179 million rise in Jul-Jan FY06 over Jul-Jan FY05. The bulk of this improvement came from rising remittances from Saudi Arabia, Qatar, UK and Canada. The rise in remittances from Canada is of particular interest. Though the absolute level of remittances from Canada is still relatively low, these have risen substantially in the last two years with a YoY growth of around 100 percent in each quarter. This is probably attributable to the higher number of Pakistani immigrants into Canada. As a matter of fact, the number of Pakistani residents is substantially expanding since late 1990s, and Pakistan is the third largest source of migrants to Canada after China and India.[11]

On the other hand, though the remittances from UAE and the USA slightly recovered in Q2-FY06 (probably to support earthquake-related relief efforts in Pakistan), in overall terms these still remained lower than the total remittances in Jul-Jan FY05 (see **Figure 6.8**).

Table 6.5: Expanding Documentation of Forex Flows

billion US$

	Remittances	FCAs	Kerb purchases	FECs	Total
FY01	1.1	0.5	2.2		3.8
FY02	2.4	0.3	1.4		4.1
FY03	4.2	0	0.4	0.3	4.9
FY04	3.9	0.4	0	1.2	5.5
FY05	4.2	0.5	0	3.1	7.8
Jul-Jan FY05	2.3	0.4	0.0	1.7	4.4
Jul-Jan FY06	2.4	0.3	0.0	1.9	4.7

Source: Statistics Department, SBP

While the workers' remittances are growing very modestly, various policy measures undertaken by SBP have resulted in expanded documentation of the forex flows under private transfers. For example, the central bank

[11] Source: www.cic.gc.ca

has been gradually increasing the coverage of FECs transactions by streamlining the reporting system and by shifting more payments to these companies. As a result, during FY05, FECs reported transactions amounting to US$ 3.1 billion compared to US$ 1.2 billion in FY04 (see **Table 6.5**). During Jul-Jan FY06, the foreign exchange flows transacted through FECs increased to US$ 1.9 billion against US$ 1.7 billion during corresponding previous year.

Resident FCAs

FCAs (resident) recorded a lower inflow of US$ 295 million in Jul-Jan FY06 compared to the US$ 445 million inflow during Jul-Jan FY05. The substantial FCA inflows during Jul-Jan FY05 were largely one-off and were observed in the deposits of a government institution and a new telecommunication company. In the absence of such one-off developments, the level of inflows remained lower in Jul-Jan FY06.[12]

6.1.2 Financial Account

The financial account balance witnessed a surplus of US$ 2.5 billion during Jul-Jan FY06 compared to the US$ 0.3 billion *deficit* during Jul-Jan FY05.[13] The major contribution to this improvement of US$ 2.8 billion in the financial account came from rising FDI and portfolio investment. In addition, rising trade loans along with higher inflows of private loans added to the surplus in the financial account.

Table 6.6: Adjusted Financial Account Balance (Jul-Jan)

million US$

	FY05	FY06	Change
Financial account balance	**-295**	**2,529**	**2,824**
One-off flows	595	-	-
Debt write-off	495	-	-
PARCO loans	100	-	-
Adjusted balance	**300**	**2529**	**2,229**

Source: Statistics Department, SBP

Net Foreign Investment (NFI)

The net foreign investment recorded a substantial YoY rise of US$ 399 million during Jul-Jan FY06. A significant share of this increase was contributed by rising FDI flows. Further, the country experienced a substantial rise of US$ 308 million in the equity part of the portfolio investment during Jul-Jan FY06 over Jul-Jan FY05, approximately 67.5 percent of which was from the USA.

[12] The monthly analysis shows that the month of December showed a divergence from the preceding months, as some inflows of one-off nature were witnessed during this period. These included inflows into the deposits of a government agency and of a foreign bank.

[13] Financial outflows during Jul-Jan FY05 included non-structural outflows, such as (1) notional outflows as a result of debt write off; and (2) repayment of PARCO loans. After excluding these outflows, net financial account shows a surplus of US$ 0.3 billion during Jul-Jan FY05 (see **Table 6.6**).

Table 6.7: Financial Account

million US$

	FY04	FY05	Jul-Jan		Change FY06 over FY05
			FY05	FY06	
Financial account (1 through 4)	**-1335**	**446**	**-295**	**2529**	**2824**
1. Direct investment abroad	**-45**	**-66**	**-34**	**-18**	**16**
2. Direct investment in Pakistan	**951**	**1525**	**515**	**1226**	**711**
of which: Equity capital	763	1211	333	913	580
Reinvested earning	183	314	182	313	131
3. Portfolio investment	**314**	**620**	**638**	**310**	**-328**
of which: (Stock markets)	-28	151	92	400	308
Special US Dollar bonds	-137	-130	-56	-96	-40
Euro bonds	496	596	598	0	-598
Net foreign investment	1220	2079	1119	1518	399
4. Other investment	**-2555**	**-1633**	**-1414**	**1011**	**2425**
Assets	-670	-1352	-1096	385	1481
i. Outstanding exports bills (exporters)	-335	-248	-132	-173	-41
ii. Outstanding exports bills (DMBs)	-120	-149	-21	62	83
iii. Currency & deposits	-215	-955	-943	496	1439
of which :Bank	-100	-837	-901	453	1354
Liabilities	-1885	-281	-318	626	944
i. Foreign Long-term loans / credits (net)	-1449	458	531	345	-186
of which :Project assistance	434	591	374	337	-37
Food aid	0	0	0	0	0
Non-food aid	536	1301	1162	592	-570
Amortization	2419	1434	1005	584	-421
ii. Private loans	-109	-351	-234	-22	212
of which: Suppliers credits/MNCs	503	20	12	167	155
Supplier Credits Repayments	612	371	246	189	-57
iii. ST Capital, (official)	-317	147	18	-61	-79
of which: Commercial banks (net)	-133	-116	-116	-116	0
IDB (net)	-184	263	134	55	-79
iv. Currency & deposits	-26	-302	-408	354	762
of which: Trade financing	-210.2	-356.0	-531.4	672.4	1204
v. Other liabilities	16	-233	-225	10	235

Source: Statistics Department, SBP

Note= LT: Long-term, DMBs: Deposit Money Banks, ST: Short-term.

Foreign Direct Investment

FDI flows recorded a substantial rise of US$ 711 million to reach US$ 1,226 million during Jul-Jan FY06. Even after adjusting the KESC privatization proceeds amounting to US$ 255 million, the FDI flows demonstrate a substantial rise of US$ 456 million (see **Table 6.8**).

Table 6.8: Adjusted FDI Flows
million US$

		Jul-Jan	
	FY04	**FY05**	**FY05**	**FY06**
FDI	**949.4**	**1524**	**515**	**1,226**
Privatization proceeds	199	363	0	255
Adjusted FDI	750.4	1161	515	971

Source: Statistics Department, SBP

Further breakup of these flows reflects that a large share of this increase came from rising investment in equity capital, the bulk of which was in the sectors of telecommunication; financial business services, oil and gas exploration, power and trade. Encouragingly, the country has been witnessing a gradual rise in the FDI flows in recent years. While there has been some improvement in the investment climate of the country, much remains to be done in order to deepen these flows sustainably (see **Box 6.2**). It must be noted that despite the gradual rise in foreign investment, Pakistan still receives a meager share (less than one percent) of the global FDI flows. A comparison with some other countries of the region shows that Pakistan's share in the global FDI flows, though rising, is still less than the other large countries (see **Table 6.9**).

Table 6.9: Countries' Share in Global FDI Inflows
percent

	2001	**2002**	**2003**	**2004**
Singapore	1.71	0.81	1.47	2.48
India	0.41	0.48	0.67	0.82
Malaysia	0.07	0.45	0.39	0.71
Thailand	0.47	0.13	0.31	0.16
Bangladesh	0.01	0.01	0.04	0.07
Sri Lanka	0.02	0.03	0.04	0.04
Pakistan	0.05	0.11	0.08	0.15

Source: World Investment Report 2005

Outstanding Export Bills (OEBs)

The outstanding export bills held by exporters increased by US$ 173 million during Jul-Jan FY06 as compared to the US$ 132 million rise of Jul-Jan FY05. This rise is attributable to high volume of exports during Jul-Jan FY06. On the other hand, the OEBs held by banks recorded a fall of US$ 62 million during this period due to higher realization (see **Figure 6.9**).

Box 6.2: Investment Climate in Pakistan

According to the Ease of Doing Business Index 2006, published by the World Bank, the investment climate in Pakistan is better than that in many regional competitors, e.g. India and Bangladesh. The Index incorporates two types of indicators: (1) measures of actual regulations—for example, the number of procedures to register a business; and (2) measures of regulatory outcomes, such as the time and cost to register a business, enforcement of a contract, or bankruptcy related procedure. The methodology is based on detailed assessments of laws and regulations, and surveys of in-country government officials, lawyers, legal consultants, and other professionals. Survey results show that doing business in Pakistan is relatively easy (see **Table B6.2**).

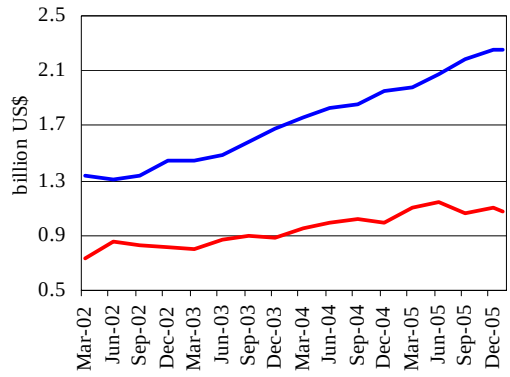
Table B6.2: Ease of Doing Business in Pakistan

	Pakistan	India	Bangladesh		Pakistan	India	Bangladesh
Starting a business				**Protecting investors**			
Procedures (number)	11	11	8	Extent of disclosure index (0-10)	6	7	6
Time (days)	24	71	35	Extent of director liability index (0-10)	6	4	7
Cost (% of income per capita)	18.6	62	81.4	Ease of shareholders suits index (0-10)	7	7	7
Dealing with licenses				Strength of investor protection index (0-10)	6.3	6	6.7
Procedures (number)	12	20	13	**Paying taxes**			
Time (days)	218	270	185	Payments (number)	32	59	17
Cost (% of income per capita)	1170.7	678.5	291	Time (hours per year)	560	264	640
Hiring and firing workers				Total tax payable (% of gross profit)	57.4	43.2	50.4
Difficulty of hiring index (0-100)	67	56	11	**Trading across borders**			
Rigidity of hours index (0-100)	40	40	40	Documents for exports (number)	8	10	7
Difficulty of firing index (0-100)	30	90	20	Signatures for exports (number)	10	22	15
Rigidity of employment index (0-100)	46	62	24	Time for export (days)	33	36	35
Hiring cost (% of salary)	12	12	0	Documents for import (number)	12	15	16
Firing cost (weeks of salary)	90	79	47	Signatures for imports (number)	15	27	38
Registering property				Time for import (days)	39	43	57
Procedures (number)	5	6	11	**Enforcing contracts**			
Time (days)	49	67	363	Procedures (number)	46	40	29
Cost (% of income per capita)	3.2	8.9	11	Time (days)	395	425	365
Getting credit				Cost (% of income per capita)	35.2	43.1	21.3
Strength of legal right index (0-10)	4	5	7	**Closing a business**			
Depth of credit information index (0-6)	4	2	2	Time (years)	3	10	4
Public registry coverage (% of adults)	0.3	0	0.4	Cost (% of estate)	4	9	8
Private bureau coverage (% of adults)	0.9	1.7	0	Recovery rate (cents on the dollar)	44.3	12.8	24.2

Source: Doing Business in 2005; International Finance Corporation, World Bank.

Currency and Deposits
Currency and deposit assets recorded a US$ 496 million fall during Jul-Jan FY06, compared to a US$ 943 million rise observed in Jul-Jan FY05. The fall was caused by a slowdown in fresh FCA inflows together with the large expansion in trade financing.

Figure 6.9: Stock of Outstanding Export Bills



Foreign Long-term Loans
Official long term loans recorded a lower inflow of US$ 345 million during Jul-Jan FY06 as compared to the US$ 1,038 million inflow in Jul-Jan FY05 (see **Table 6.10**).[14] Lower inflows of program loans from both ADB and the World Bank were responsible for this fall in the net inflows. These flows would have been even lower, were it not for earthquake related disbursement of US$ 200 million & US$ 84.4 million by IDA and ADB respectively.[15]

Table 6.10: Adjusted Official LT Loans (Jul-Jan)
million US$

	FY05	FY06
Receipts	1548	929
Amortization	510	584
Net inflows	1038	345

Source: Statistics Department, SBP

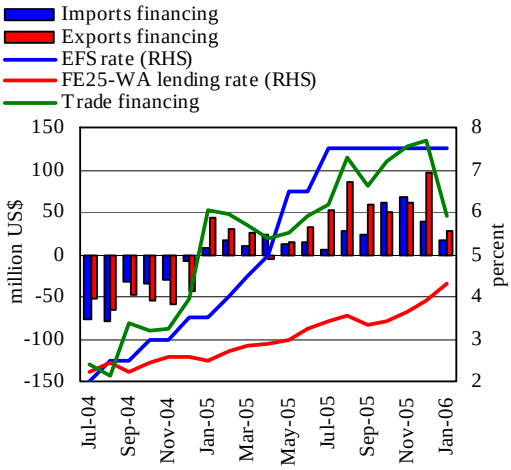
Private/Short-term Loans
Private loans inflows remained higher during Jul-Jan FY06, recording a US$ 155 million rise during this period. Most of these inflows were directed to the transport, storage and communication sectors. The short term loans inflows on the other hand remained lower during this period due to low disbursement of IDB financing for oil imports.

[14] The net inflow during Jul-Jan FY05 is adjusted for the US$ 495 million debt write off during that period.
[15] The ADB has pledged a sum of US$ 1 billion as earthquake assistance. Out of this amount, US$ 80 million will be disbursed as grant and the remaining will be in the form of loans.

FE-25 Related Trade Financing

The trade financing against FE-25 deposits recorded a substantial rise of US$ 672 million against the net retirement of US$ 531.4 million in the same period last year (see **Figure 6.10**). As a matter of fact, during Jul-Jan FY05 due to the expectations of a substantial depreciation of the rupee, there was a net retirement of trade loans. However, during Jul-Jan FY06 both due to a stable rupee as well as the widened gap between EFS and FE-25 weighted average lending rates, the loans against FE-25 deposits remained more attractive for exporters.[16]

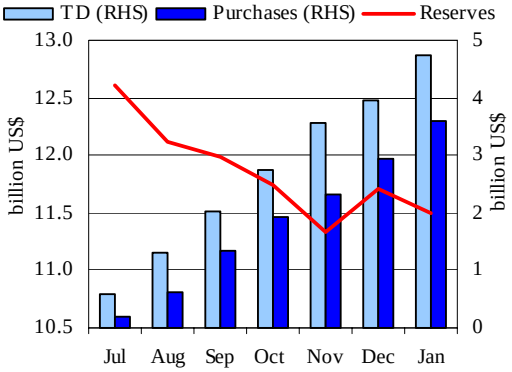
Figure 6.10: Trade Financing and Lending Rates



Foreign Exchange Reserves

While Pakistan's trade account balance deteriorated sharply by US$ 2.2 billion during Jul-Jan FY06 and the central bank continued to provide liquidity for key commodity imports with net sales of US$ 1.5 billion during this period, SBP's reserves fell no more than by US$ 746.7 million during Jul-Jan FY06. Adding to this a US$ 369 million fall in commercial banks' reserves, the Pakistan's total foreign exchange reserves showed a decline of US$ 1,114.7 million during Jul-Jan of FY06 to reach US$ 11,502.2 million by end January 2006 (see **Figure 6.11**).

Figure 6.11: Reserves, Trade Deficit and SBP Cumulative Purchases during FY06



[16] A large share of the trade loans is for financing exports.

Table 6.11 Overall Reserves as per BOP- BPM-5

million US$	Q1	Q2	Q3	Q4	FY 05	Q1	Q2	Jul- Dec	
	FY05	FY 05	FY05	FY05		FY06	FY06	FY06	FY 05
Opening Balance	**12,389**	**12,458**	**12,141**	**12,855**	**12,389**	**12,621**	**12,061**	**12,621**	**12,389**
Inflows	**7,386**	**8,191**	**8,441**	**8,538**	**32,556**	**8,760**	**9,632**	**18,392**	**15,577**
Exports of goods	3,393	3,553	3,751	3,785	14,482	3,870	4,043	7,913	6,946
Export of services	865	812	788	854	3,319	1,074	930	2,004	1,677
Of which logistic support	280	168	202	181	831	474	282	756	448
Income	58	59	79	241	437	142	194	336	117
Workers' Remittances	983	963	1,104	1,118	4,168	1,002	1,053	2,055	1,946
Foreign Direct Investment	159	252	246	444	1,101	321	515	836	411
Foreign Portfolio Investment	21	38	48	44	151	145	214	359	59
Euro / Sukuk Bond	0	0	600	0	600	0	0	0	0
Loan Disbursements	828	745	526	339	2,438	737	565	1,302	1,573
Official	*818*	*743*	*518*	*339*	2,418	*570*	*565*	1,135	1,561
Long-term loans	*721*	*743*	*381*	*302*	2,147	*407*	*559*	966	1,464
Program loans	*596*	*521*	*300*	*139*	1,556	*246*	*346*	592	1,117
IMF	255	0	0	0	255	0	0	0	255
IDA/IBRD	310	115	300	0	725	96	200	296	425
AsDB	31	406	0	139	576	150	146	296	437
Project & food loans	125	222	81	163	591	161	213	374	347
Short-term including IDB	97	0	137	37	271	163	6	169	97
Private un-guaranteed	10	2	8	0	20	167	0	167	12
Privatization proceeds	0	0	103	260	363	0	255	255	0
Official grants	32	60	64	235	391	38	155	193	92
Other receipts	1,047	1,709	1,132	1,218	5,106	1,431	1,708	3,139	2,756
Outflows	**7,317**	**8,508**	**7,727**	**8,772**	**32,324**	**9,320**	**9,986**	**19,306**	**15,825**
Imports of goods	4,175	5,047	4,801	4,973	18,996	5,899	5,978	11,877	9,222
Imports of services (excl. interest)	1,449	1,669	1,764	1,730	6,612	1,931	2,051	3,982	3,118
Interest payments	225	281	152	379	1,037	258	371	629	506
Amortization of official loans	362	365	259	353	1,339	345	303	648	727
IMF	108	139	68	85	400	48	42	90	247
IDA/IBRD	124	86	134	92	436	127	78	205	210
AsDB	41	80	50	71	242	46	58	104	121
Others actual paid	89	60	7	105	261	124	125	249	149
Profit and Dividends	164	246	139	287	836	234	317	551	410
Purchase of crude oil /Gas	195	225	258	272	950	231	269	500	420
Principal repaid on private loans	103	70	111	88	372	94	69	163	173
Foreign exchange liabilities liquidated	27	50	27	50	154	115	51	166	77
PTMA & comm.. loans-actual paid	*0*	*16*	*0*	*0*	16	0	*16*	16	16
IDB (Short Term)	*0*	*8*	*0*	*0*	8	97	*0*	97	8
Special US$ bonds	*27*	26	27	50	130	18	*35*	53	53
Other Payments	617	555	216	640	2,028	213	577	790	1,172
Gross reserves at end of period	***12,458***	***12,141***	***12,855***	***12,621***	***12,621***	*12,061*	***11,707***	***11,707***	***12,141***
CRR	**587**	**637**	**645**	**682**	**682**	**680**	**713**	**713**	**637**
Sinking fund	**235**	**0**	**0**	**200**	**200**	**45**	**0**	**0**	**0**
Net reserves of SBP	**10,079**	**9,182**	**10,062**	**9,805**	**9,805**	**9,504**	**9,226**	**9,226**	**9,182**
DMB Reserves without sinking fund & includes CRR	**2,144**	**2,959**	**2,793**	**2,616**	**2,616**	**2,512**	**2,481**	**2,481**	**2,959**

Source: Statistics Department, SBP

A further analysis of factors causing changes in SBP's reserves during Jul-Jan FY06 period suggests the presence of substantial non-structural inflows such as receipts from logistic support, privatization proceeds, cash grants etc. Further, the loan disbursements were lower during Jul-Jan FY06 compared to the corresponding period last year.

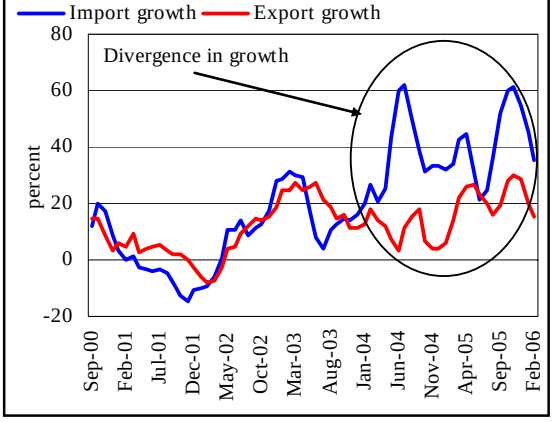
Indeed, even as the SBP continued support for oil payments and some other commodities, it was also able to purchase foreign currency from the market. This led to a net injection of US$ 1.5 billion during Jul-Jan FY06, translating into net average monthly sales of US$ 207.9 million during the period, as compared to net average sales of US$ 277.4 million during corresponding period of FY05.

SBP reserves also benefited from inflows of US$ 2,580 million from donor agencies, logistic support and privatization during Jul-Jan FY06. Encouragingly, most of the total inflows are non-debt creating in nature. Such inflows include US$ 756.1 million as logistic support from the US and US $ 455.0 million in privatization proceeds.

6.2 Trade Account[1]

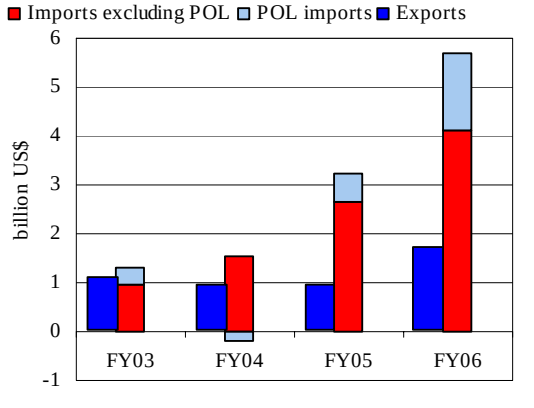
The divergence between the growth rates of exports and imports that emerged in the second half of FY04, continued in FY06 as well (see **Figure 6.12**). Specifically, during the Jul-Feb FY06 period, the extraordinary 46.3 percent YoY growth in imports outpaced the strong export growth of 19.7 percent (on YoY basis). As a result, the trade deficit continued to widen sharply, touching US$ 7.4 billion compared to US$ 3.5 in the corresponding period last year.

Figure 6.12: Exports and Imports (3-month MA)



The exceptionally strong growth in the trade deficit during FY05 and FY06 has led to demands for corrective policy actions, and the focus has often been on the need to compress imports. However, the growth in the imports cannot be easily contained. The available data suggests that much of the growth in imports comprises of either machinery or input for industries, curtailing which would result in a significant fall in economic activities.

Figure 6.13: Change in Exports & Imports (Jul-Feb)

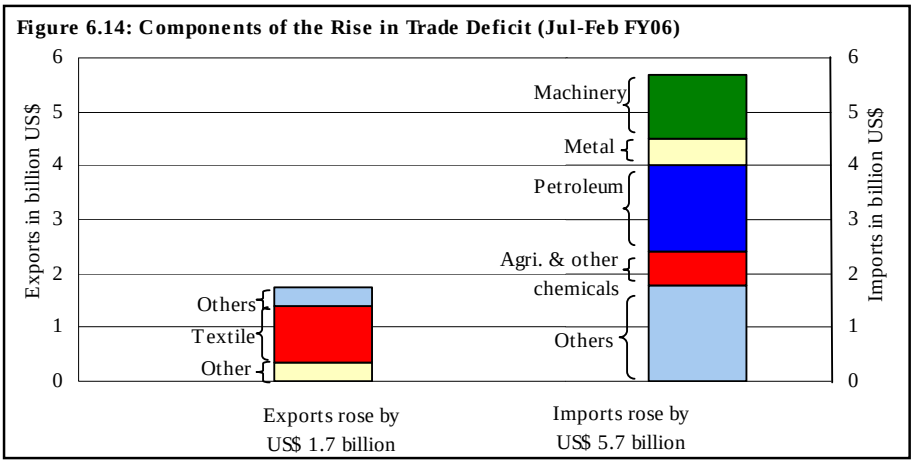


As seen in **Figure 6.13**, approximately 28 percent of the July-Feb FY06 growth in imports is due to the higher POL import bill, and even this owes mainly to rising international prices.[2]

[1] The discussion in this section is based on customs data provided by the Federal Bureau of Statistics (FBS) which differs from trade numbers compiled by SBP (see Special section 1 for details).

Similarly, another substantial portion of the growth in imports during the period is due to a rise in machinery imports, most of which is catering to the economy's rising demand to increase production as well as productive capacity and to improve infrastructure. Imports of agricultural & chemical group, metal group and food group also increased sharply but their contribution in overall imports is relatively small (see **Figure 6.14**).

Figure 6.14: Components of the Rise in Trade Deficit (Jul-Feb FY06)



It has been argued that the domestic economic growth has also stoked the import demand for some consumer durables as well, particularly of cell phone, personal cars, TV, refrigerator etc. However, this is not necessarily a negative development, provided that the larger part of the demand is contributed by domestic industry.[3] Indeed, the strong growth in domestic consumption has been a major boost to domestic manufacturing, with consequent positive impacts on employment and income levels.

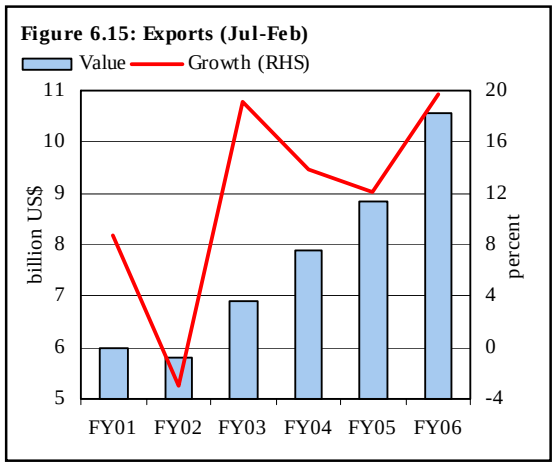
6.2.1 Exports

Overall exports posted a remarkable growth of 19.7 percent YoY during Jul-Feb FY06, substantially higher than the 12.1 percent YoY export growth in the corresponding period of last year (see **Figure 6.15**). In fact, in absolute terms, the rise in exports during Jul-Feb FY06 was only slightly lower than the combined

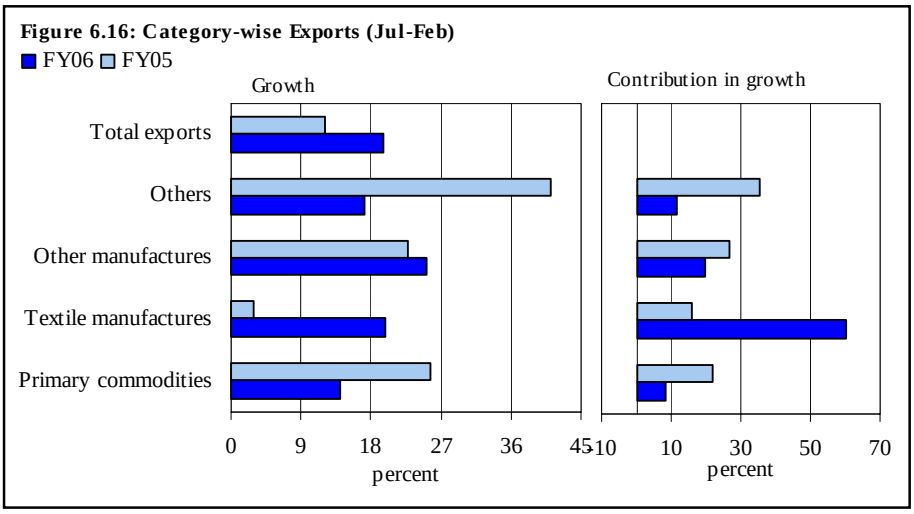
[2] The POL imports during Jul-Feb FY06 increased by US$ 1.6 billion (66.1 percent) on YoY basis, which was mainly due to higher oil prices in the international market as import quantum of POL increased only marginally during this period.

[3] Moreover, the detailed FBS data available for up to October 2005, shows that the share of cell phone, personal cars, gold, TV, telephone sets, refrigerator, air conditioners and video camera in total imports was only 5.7 percent during Jul-Oct FY06 compared to 3.2 percent during corresponding period last year.

increase in exports realized during the corresponding period of the previous two years.[4]



Moreover, this impressive export performance was realized despite negative developments in exports to the EU market, including continuation of antidumping duty on the bed linen exports, the loss of preferential access under GSP and the significant appreciation of the rupee against Euro. As customary, textile exports contributed over 60 percent of the export growth followed by *other manufactures* and *primary commodities* (see **Figure 6.16** & **Table 6.12**).



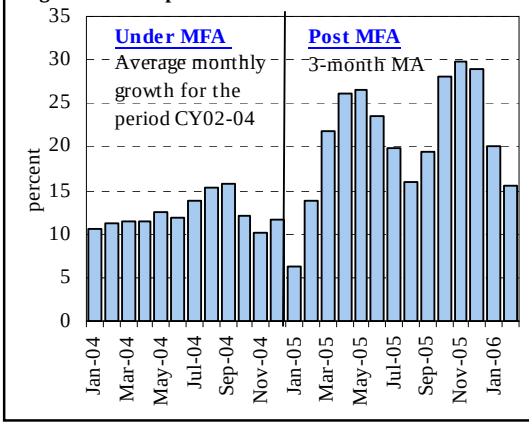
The performance of textile exports during the post MFA regime is particularly remarkable. As evident from **Figure 6.17**, the monthly export growth during the

[4] Exports increased by US$ 960.8 million and US$ 954.6 million during Jul-Feb periods of FY04 and FY05 respectively.

period after the complete phase out of the MFA has been considerably higher than the average growth realized in the corresponding month during the previous 3 years.

Specifically, the average monthly export growth has been 21.1 percent during post-MFA period (i.e., Jan 2005-Feb 2006) against monthly average growth of 10.3 percent during CY02-04.

Figure 6.17: Export Growth - Post MFA



Part of the explanation probably lies in the slower textile export growth during corresponding months of FY05 amidst uncertainty due to the scheduled removal of global textile quotas under MFA from January 2005 and onward. This suggests that the growth in textile exports could see a relative slowdown in the months ahead.

Primary Commodities

The primary commodities witnessed growth of 14.1 percent YoY during Jul-Feb FY06 as compared to 25.7 percent YoY growth in the corresponding period of FY05. The major contributors to the growth in primary commodity exports were *rice* and *fish & fish preparations,* but the impact of strong exports in these categories was partially offset by the fall in raw cotton exports.

The rice export performance was remarkable, rising by 41 percent YoY during the period, against the 24.8 percent YoY growth realized during the corresponding period last year. This substantial increase was mainly driven by higher export quantum as well as an increase in unit values.[5]

Similarly, the increase in unit values and quantum enabled the *fish and fish preparation* to register 27.8 percent YoY growth during the period as compared to *negative* growth of 11.7 percent in the corresponding period of last year.

[5] The rice crop recorded production of 5 million ton during the current year.

Table 6.12: Major Exports (Jul-Feb)

Value: million US$; Unit value: US$

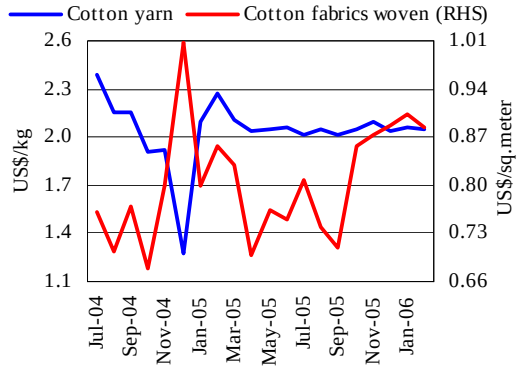
		FY05		FY06		Abs chg. In value	% change in Jul-Feb FY06/ Jul-Feb FY05		
	Unit	Value	Unit value	Value	Unit value		Qty	Value	Unit value
A. Primary commodities		**1024.1**		**1168.9**		**144.8**		**14.1**	
1 Rice	MT	503.9	337.9	710.7	402.7	206.8	18.3	41.0	19.2
2 Raw cotton	MT	89.3	938.8	48.1	1019.1	-41.2	-50.4	-46.2	8.6
3 Raw wool (excluding wool tops)	MT	0.5	1593.4	0.4	1371.3	-0.1	0.0	-13.9	-13.9
4 Fish & fish preparations	MT	92.2	1497.9	117.9	1663.5	25.6	15.1	27.8	11.1
5 Leather	SQM	198.3	16.3	169.0	16.7	-29.4	-17.1	-14.8	2.8
6 Guar and guar products	MT	17.8	1198.5	7.6	1124.9	-10.2	-54.6	-57.4	-6.1
7 Fruits	MT	68.8	314.6	78.3	367.9	9.5	-2.7	13.8	16.9
8 Vegetables	MT	23.0	302.1	20.0	338.7	-3.0	-22.4	-13.0	12.1
9 Crude animal material	MT	11.2	3570.3	6.5	4283.2	-4.7	-51.6	-41.9	20.0
10 Oil seeds & nuts etc.	MT	18.9	784.0	10.4	711.8	-8.6	-39.6	-45.2	-9.2
B. Textile manufactures		**5285.1**		**6334.9**		**1049.7**		**19.9**	
12 Cotton yarn	MT	654.8	1926.8	844.4	2036.4	189.6	22.0	29.0	5.7
13 Cotton fabrics (woven)	SQM	1151.7	0.8	1374.0	0.8	222.3	17.0	19.3	2.0
14 Hosiery (knitwear)	DOZ	1099.1	24.2	1120.5	23.3	21.4	5.7	1.9	-3.5
15 Bed ware	MT	802.6	5436.2	1330.1	5512.9	527.5	63.4	65.7	1.4
16 Towels	MT	324.7	3734.4	365.9	3675.5	41.2	14.5	12.7	-1.6
17 Cotton bags and sacks	MT	8.8	4066.4	4.4	4120.3	-4.4	-50.6	-49.9	1.3
18 Readymade garments	DOZ	655.1	31.8	872.3	35.9	217.2	17.8	33.1	13.1
19 Tarpaulin & other canvas goods	MT	45.2	2600.2	12.9	2254.5	-32.3	-67.0	-71.4	-13.3
20 Tule, lace, embroidery etc.	(-)	8.4	---	3.2	---	-5.2	---	-61.8	---
21 Synthetic textiles	SQM	207.5	0.7	128.3	0.8	-79.2	-43.1	-38.2	8.6
22 Other textile made up	(-)	320.8	---	274.7	---	-46.0	---	-14.4	---
23 Waste material of textile fibers/fabrics	MT	6.4	616.1	4.2	948.5	-2.3	-57.9	-35.2	54.0
C. Other manufactures		**1370.8**		**1714.9**		**344.2**		**25.1**	
24 Carpets, carpeting rugs & mats	SQM	171.9	59.2	176.9	61.1	5.0	-0.2	2.9	3.1
25 Petroleum and products	MT	264.4	367.8	453.1	486.1	188.6	29.7	71.3	32.2
26 Sports goods	(-)	178.8	---	193.7	---	14.9	---	8.3	---
27 Leather manufactures	(-)	330.5	---	484.0	---	153.6	---	46.5	---
28 Surgical & medical instruments	NO	117.6	---	104.4	---	-13.1	---	-11.2	---
29 Cutlery	GR	20.2	18.5	22.6	44.8	2.5	-53.7	12.2	142.4
30 Onyx manufactured	MT	5.4	1701.4	8.0	1634.2	2.6	54.1	48.0	-3.9
31 Chemicals and pharmaceuticals	(-)	222.8	---	244.7	---	21.9	---	9.8	---
32 Molasses	MT	49.1	56.9	17.9	44.8	-31.2	-53.8	-63.6	-21.2
33 Sugar	MT	10.1	285.7	9.5	386.5	-0.6	-30.3	-5.7	35.3
Others		**1155.9**	---	**1354.6**	---	**198.8**	---	**17.2**	
Total exports		**8835.9**		**10573.4**		**1737.5**		**19.7**	

Source: Federal Bureau of Statistics

Textile Manufactures

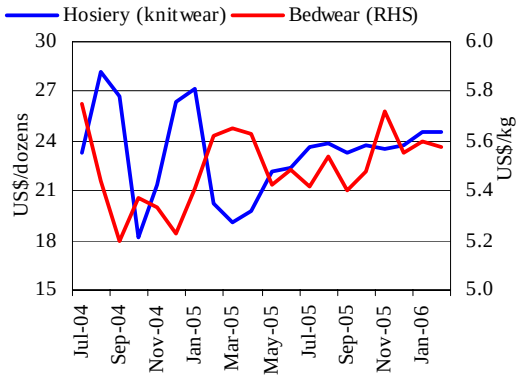
Exports of textile manufactures grew by 19.9 percent YoY during Jul-Feb FY06 as compared to the negligible growth of 3 percent during the corresponding period last year. A low base effect together with the relatively stable prices of most of the textile products in the international market led to remarkable textile export growth rates during the period under review. In this regard, the key contribution came from bedware, readymade garments, cotton fabrics and cotton yarn.

Figure 6.18: Unit Values of Low Value Added Textile Products



The *low value-added textile products* recorded remarkable 22.8 percent YoY growth during Jul-Feb FY06 as compared to nominal growth of 3.3 percent in the corresponding period of last year. Within this category, *cotton yarn* and *cotton fabrics* witnessed 29 percent YoY and 19.3 percent YoY growth respectively during Jul-Feb FY06 as compared to growth rates of minus 5.4 percent YoY and 9.1 percent YoY in the corresponding period of the previous year. Encouragingly, this increase was contributed by a rise in both, the unit values and quantities (see **Figure 6.18**).

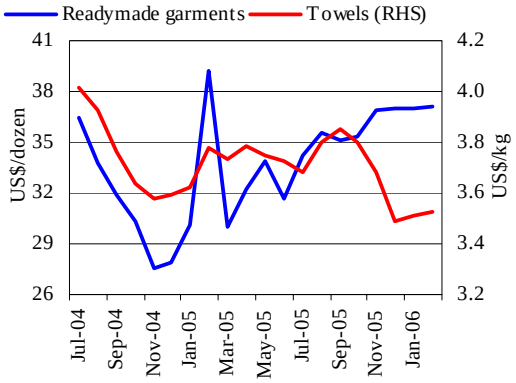
Figure 6.19(a): Unit Values of High Value Added Textile Products



The impact of rising unit values and low base effect of the previous year was also visible within *high value added* textile product (see **Figure 6.19(a)**). For example, the *bed ware* exports registered 65.7 percent YoY growth during Jul-Feb FY06 as compared to a decline of 9 percent YoY in the corresponding period of the previous year (subsequent to the imposition of the antidumping duty on bed ware

export to EU). The improved performance during FY06 suggests that Pakistan has been able to withstand the adverse impact of anti dumping duty through market diversification. The expected reduction in the antidumping duty on bed ware exports from Pakistan from 13.1 percent to 5.8 percent expected to be enforced from mid-April, 2006 is likely to have positive impact on exports.

Figure 6.19(b): Unit Values of High Value Added Textile Products



Likewise, the export of *readymade garments* witnessed YoY growth of 33.1 percent during Jul-Feb FY06 against a decline of 0.1 percent YoY in Jul-Feb FY05 (see **Figure 6.19(b)**). The 6 percent subsidy to the sector might have given additional support to the readymade garments export.[6]

However some of the value added textile exports experienced decline in unit values as well as high base effect. For example, *towels* export increased by 12.7 percent during Jul-Feb FY06 as compared to impressive growth of 34 in the corresponding period of last year. The knit wear exports on the other hand registered a nominal growth of 1.9 percent during the period in comparison to 19.8 percent growth in same period last year.

Textile Sector under post-MFA regime

An analysis of Pakistan's textile exports in the US market one year after the complete phase-out of the MFA provides some interesting insights.

In overall terms, Pakistan's textile export growth to the US did not experience any major change in its trend. In fact, despite a marginal slow down in export growth (from 13.9 percent in CY04 to 13.4 percent during CY05), Pakistan's share in US market expanded slightly to 3.2 percent in CY05 against 3.0 percent during CY04 (see **Table 6.13**). In comparison, China was the major beneficiary of the post-

[6] The government is providing research and development support to the textile garment units manufacturing and exporting textile garments to EU and USA subject to certain conditions. This support is applicable to shipment made on or after April 12th 2005.

MFA regime as its textile exports to US increased by 42.8 percent during CY05 as compared to 22.7 percent growth during the corresponding period of last year. Moreover, its share in the US market has increased to 27.6 percent from 20.6 percent a year earlier.

Table 6.13: Textile Imports in USA

	million US$			% YOY Growth	
	CY05	**CY04**	**CY03**	**CY05**	**CY04**
Pakistan	3,230.8	2,850.2	2,503.4	13.4	13.9
% Share	*3.2*	*3.0*	*2.9*		
China	27,750.2	19,437.2	15,846.0	42.8	22.7
% Share	*27.6*	*20.6*	*18.1*		
Bangladesh	2,658.9	2,244.9	2,094.8	18.4	7.2
% Share	*2.6*	*2.4*	*2.4*		
Sri Lanka	1,804.8	1,701.4	1,594.0	6.1	6.7
% Share	*1.8*	*1.8*	*1.8*		
India	5,518.4	4,417.5	3,912.1	24.9	12.9
% Share	*5.5*	*4.7*	*4.5*		
Vietnam	2,971.5	2,819.5	2,591.8	5.4	8.8
% Share	*3.0*	*3.0*	*3.0*		
Thailand	2,281.6	2,316.6	2,160.6	-1.5	7.2
% Share	*2.3*	*2.5*	*2.5*		
Total US Textile Imports	100,531.1	94,388.9	87,372.9	6.5	8.0

Source: US Census Bureau

The growth of Indian textile exports to the US market almost doubled to 24.9 percent during CY05 from 12.9 percent during CY04. As a result, India's textile exports succeeded in increasing their market share in US from 4.7 percent during CY04 to 5.5 percent during CY05.

Detailed analysis suggests that Pakistan was successful in increasing its share in the textile mill products (middle value added range) whereas its share in the high value added products of apparel and accessories remained unchanged. On the other hand, the textile and fabric exports witnessed negative growth, with a consequent fall in market share (see **Table 6.14**).

China on the other hand increased its share in the US market, in all the categories, ranging from value added to high value added products. However, the increase was more pronounced in case of high value added products. Finally, while, India was able to increase its share in the high value added product, its share in the low value added product and middle value added product remained unchanged.

A further analysis of Pakistan's textile exports to the US indicates that except non-woven fabrics all the other items depicted negative growth in the low value added products (see **Table 6.15**). However, all the items in the middle value added range witnessed positive growth. The major contribution in textile mill products came from other household textile product and textile sacks and bags. The high value added items showed mix trend.

The analysis suggests that Pakistan has been successful in increasing its share in the middle value added product and maintaining its share in the high value added products. However, the low value added products seems to be uncompetitive as Pakistan has lost its market share to India and China.

Table 6.14: Category Wise Textile Imports of the US

	Amount (million US$)			% YOY Growth	
	CY05	**CY04**	**CY03**	**CY05**	**CY04**
Pakistan					
Textiles and Fabrics	438	536	440	-18	22
% Share	*6*	*7*	*6*		
Textile Mill Products	1,347	991	862	36	15
% Share	*9*	*8*	*8*		
Apparel and Accessories	1,446	1,323	1,201	9	10
% Share	*2*	*2*	*2*		
China					
Textiles and Fabrics	1,061	725	582	46	25
% Share	*13*	*9*	*8*		
Textile Mill Products	6,195	4,828	3,626	28	33
% Share	*43*	*38*	*34*		
Apparel and Accessories	20,494	13,884	11,638	48	19
% Share	*26*	*19*	*17*		
India					
Textiles and Fabrics	321	283	266	13	6
% Share	*4*	*4*	*4*		
Textile Mill Products	1,812	1,582	1,324	15	19
% Share	*13*	*13*	*13*		
Apparel and Accessories	3,385	2,553	2,322	33	10
% Share	*4*	*3*	*3*		

Source: US Census Bureau

Table 6.15: Pakistan's Textile Exports to USA

	million US$		% YOY Growth
	FY05	**FY04**	
313-Textile and fabrics			
Nonwoven fabrics	0.0	0.0	38
Narrow fabrics	0.3	0.4	-11
Knit fabrics and lace	2.1	3.2	-34
Yarns	122.1	137.9	-11
Broad woven fabrics	310.2	390.8	-21
Coated fabrics	2.8	3.9	-29
314-Textile mill product			
Ropes, cordage, and twine	0.9	0.9	3
Textile sacks and bags	1.8	0.8	123
Other household textile products	1116.9	786.1	42
Carpets and rugs	129.6	114.9	13
All other miscellaneous textile products	40.1	35.6	13
Curtains and draperies	57.5	51.7	11
Canvas and related products	0.5	0.7	
315-Apparel and accessories			
Women's and girls' other outerwear	136.2	93.7	45
Men's and boys' trousers, slacks, and jeans	122.6	98.6	24
Gloves & mittens	51.0	42.4	20
Men's and boys' suits, coats, and overcoats	3.2	2.7	18
Hosiery and Socks	85.6	76.8	11
Men's and boys' shirts (except work shirt)	576.9	523.2	10
Women's and girls' suits, coats, tailored jackets, and skirts	41.0	38.2	8
Men's and boys' underwear and nightwear	58.3	54.6	7
Women's and girls' lingerie, loungewear, and nightwear	61.0	59.5	3
Men's and boys' other outerwear	125.2	128.3	-2
Women's and girls' blouses and shirts	105.4	109.9	-4
Infants' apparel	6.1	6.5	-7
Fur and leather apparel	43.6	50.1	-13
Other apparel accessories	13.8	16.3	-15
Men's & boys neckwear	0.0	0.0	-17
Women's and girls' dresses	14.8	19.9	-25
Hats and cap	1.1	2.4	-54

Source: US Census Bureau

Textile Exports to the EU Market

Pakistan's textile export to the EU market in the post-MFA regime showed relatively unsatisfactory performance as compared to its major competitors. Specifically Pakistan's textile share in the EU market contracted from 1.98 percent in CY04 to 1.67 percent during Jan-Nov CY05. In contrast, export share of China rose from 11.36 to 15.41 percent making her the largest share holder in the EU market; similarly the export share of India increased from 3.59 percent to 4.0 percent during period under review (see **Table 6.16**).

Table 6.16: Percentage Share of Selected Countries Exports in EU-25 Total Textile Imports

	CY03	CY04	Jan-Nov 05
Bangladesh	2.56	2.93	2.64
China	10.57	11.36	15.41
Egypt	0.62	0.60	0.56
Indonesia	1.61	1.45	1.24
India	3.58	3.59	4.00
Iran	0.17	0.16	0.13
South Korea	1.46	1.31	0.99
Sri Lanka	0.59	0.64	0.59
Myanmar	0.24	0.28	0.14
Mexico	0.08	0.08	0.08
Malaysia	0.39	0.36	0.34
Philippines	0.27	0.29	0.18
Pakistan	1.87	1.98	1.67
Thailand	0.98	0.94	0.85
Turkey	15.07	15.06	14.86
Total EU	100.0	100.00	100.00

The detailed analysis shows that Pakistan gained market share in some of the low value added or middle value added products (see **Table 6.17**). Within this category, the increase in the share of cotton yarn and cotton cloth was more significant. The loss in market share is more visible in higher value added products, particularly made up textile articles (e.g. bedware) followed by apparel articles and accessories (readymade garments and knit wears).

China expanded its share in the EU market in almost all the categories ranging from low value added to high value added products. However, market gains for China are more concentrated in higher value added products. The India however posted mix trend under post MFA regime. The gains in market share for India were limited in exports of low value-added textile products, whereas in the high value added products (bedware in particular) India succeeded in increasing its market share in almost all the categories. Conversely, Bangladesh lost its market share in the EU market in both the low value added and high value added products.

Table 6.17: Category- wise Share of Major Textile Exporters to EU Market.

percent

	Pakistan			China			India			Bangladesh		
Pakistan	**CY03**	**CY04**	**Jan-Nov-05**	**CY03**	**CY04**	**Jan-Nov-05**	**CY03**	**CY04**	**Jan-Nov-05**	**CY03**	**CY04**	**Jan-Nov-05**
Cotton	7.1	8.4	10.3	5.9	5.9	9.3	10.6	11.3	12.4	0.2	0.2	0.1
Veg Text Fib;Veg Fib & Paper Yns	0.0	0.0	0.1	11.3	12.6	31.3	16.5	14.0	13.7	12.1	10.9	10.3
Man Made Filaments	1.2	1.3	1.2	20.7	22.5	20.4	3.6	3.5	4.0	0.0	0.0	0.0
Man Made Staple Fibers	6.0	6.4	5.1	4.2	5.0	7.0	4.2	4.4	3.5	0.0	0.0	0.0
Wadding, felt and non woven; special yarn	0.2	0.1	0.1	3.4	4.4	6.1	0.6	0.6	0.7	0.0	0.0	0.0
Carpets and other textile floor coverings	3.8	4.0	3.7	5.1	5.5	6.3	14.9	15.6	16.0	0.0	0.0	0.0
Special Woven Fabrics	0.5	0.4	0.6	14.8	16.7	21.9	4.1	4.6	5.2	0.0	0.0	0.0
Impregnated etc textile fabrics and textile articles for industrial use	0.1	0.1	0.2	2.5	3.8	6.0	1.0	1.0	1.1	0.0	0.0	0.0
Knitted or croacheted Fabrics	0.1	0.1	0.1	3.5	5.4	8.3	2.0	2.1	1.2	0.0	0.0	0.0
Apparel articles and accessories knitted or croacheted	0.8	1.0	0.7	8.9	9.6	14.2	2.6	2.8	3.1	4.3	4.9	4.5
Apparel articles and accessories not-knitted or croacheted	0.9	0.9	0.7	12.3	13.1	17.5	2.5	2.3	2.9	2.5	2.8	2.3
Other made up textile articles	7.6	7.3	6.2	12.2	13.6	17.8	6.3	6.5	7.3	0.9	1.3	1.3

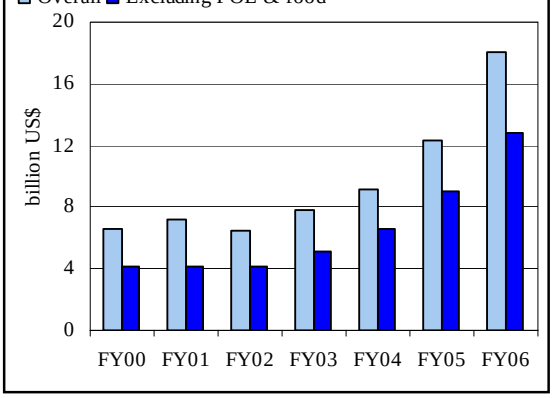
Other Manufactures

Exports of *Other manufactures* performed well during Jul-Feb FY06, rising by 25.1 percent YoY during Jul-Feb FY06, as compared to a 22.7 percent YoY rise during the same period last year. The major contributor in this section were petroleum & petroleum products and leather manufactures, which recorded growths of 71.3 percent YoY and 46.5 percent YoY growth respectively during the period under consideration.

6.2.2 Imports

The overall imports rose sharply by 46.3 percent YoY during Jul-Feb FY06 as against 35.4 percent YoY in the corresponding period of previous year. The strong contribution to the increase was from the persistent rise in international oil prices as well as the need to improve the domestic supplies of essential food items. However, even excluding POL and food, imports still showed a strong growth of 43 percent YoY during Jul-Feb F06 compared to 37 percent YoY in Jul-Feb FY05 (see **Figure 6.20**).

Figure 6.20: Imports (Jul-Feb)



The petroleum group imports rose by 66.1 percent YoY during Jul-Feb FY06 as compared to 30.2 percent YoY increase in the corresponding period of FY05. The rise in POL imports stemmed mainly from rising prices (contributing 98 percent of the rise in the petroleum imports). In comparison, the increase in petroleum imports during the corresponding year was contributed by both price (63 percent) and quantity (37 percent).

The government efforts to improve the supply of food items, particularly sugar, also contributed to the inflated import bill. Specifically, the imports of sugar and wheat contributed 79 percent of the total YoY growth in food imports during Jul-Feb FY06.

As far as the non-oil non-food imports are concerned, there has been some criticism on the manner in which these imports are classified. In particular, some

concerns have been raised about the composition of import of capital goods as this category also includes cellular phones, personal cars, TV, refrigerator, etc. As long as these imports are being used in the production of goods & services and increasing jobs, there is no harm in classifying such imports under capital goods. However, a sharp increase in imports of these goods does raise concerns on the quality of capital goods imports. In order to address these concerns, it would be necessary to determine their weightage in overall imports.

Table 6.18: Imports Economic Category-wise

	Import share (customs record)			Import share (exchange record)		
Economic Category	**Jul-Oct-FY05**	**Jul-Oct-FY06**	**% share in growth**	**Jul-JanFY05**	**Jul-JanFY06**	**% share in growth**
Consumer goods	10.2	10.9	13.2	12	12	13
Raw material for consumer goods	52.0	48.3	38.6	48	49	51
Raw material for capital goods	7.9	7.9	7.9	9	8	6
Capital goods	29.9	32.9	42.0	31	31	30
Total imports	100.0	100.0	100.0	100	100	100
Capital goods (adjusted)*	26.8	27.1	28.1	26	26	23

Source: Federal Bureau of Statistics and State Bank of Pakistan

*Adjusted for cellular phones, gold, small cars, telephones sets, television & refrigerators, video cameras and window/wall type ACs

Unfortunately further analysis is hampered by the considerable time lags in the availability of detailed information on imports; as of February 2006, the Federal Bureau of Statistics (FBS) has released detailed data up to October 2005 only.

Table 6.19: Some of the Imports Included in Capital Goods

million US$	SBP		FBS	
	Jul-Jan FY05	**Jul-Jan FY06**	**Jul-Oct FY05**	**Jul-Oct FY06**
Cellular phones	186.7	303.6	53	193
Gold (monetary & non-monetary)	0.0	0.0	0	108
Vehicles personal usage	262.7	357.2	101	188
Televisions & refrigerators	35.7	26.9	12	10
Telephone sets	23.3	25.2	5.0	0.3
Others (window/wall type ACs and video cameras)	-	-	11.1	9.8
Total	**508.5**	**715.7**	**182**	**510**

In order to address these data limitations, we have used imports based on exchange record which is available up to January 2006.[7] As evident from **Table 6.18** & **6.19**, the share of various economic categories in overall imports during Jul-Jan FY06 follows the similar trends that were observed during Jul-Oct FY06 period in the custom record data.

[7] For discussion on the difference between custom record and exchange record data, see **Special Section 1**.

A detailed analysis of capital good imports confirms that this category includes some durables items, but their share is very small, i.e., capital goods imports adjusted for selected durables still enjoy 27.1 percent share in total imports during Jul-Oct FY06, up by 0.3 percentage points over the corresponding period of last year. More importantly, these adjusted capital goods still contribute around 28.1 percent of the increase in total imports. Thus, the share of cellular phones or personal cars in total imports is not very significant. Further, it should be noted that the sharp growth in these durables may be treated as an outcome of a structural change following the opening up of these sectors.[8] In this case, we may expect that the imports of cell phone and personal cars would adjust to new levels once the economic agents absorbs the impact of policy change in these sectors. In fact, as discussed earlier, there are fair chances that any exchange rate adjustment to counter these imports may prove ineffective (see **Box 6.3**).

Food Group

The food group recorded YoY growth of 39.7 percent during Jul-Feb FY06 as against 25.7 percent growth in the corresponding period last year (see **Table 6.20**). The sugar import to bridge the domestic consumption and production gap contributed almost 66.5 percent in the growth of total food group imports. The other major imports were the wheat, pulses and palm oil contributing 12.4 percent, 12 percent and 6 percent in the food imports respectively. As a result the food group contribution in total import growth has increased to 6 percent during Jul-Feb FY06 from 5 percent in the same period of last year.

[8] One can even argue on the logic of excluding *all* cellular phones or personal cars from the capital goods category as some of the cell phone might have been used in the business activity.

Box 6.3: Disaggregated Import Elasticities for Pakistan[9]

While sufficient evidence is available suggesting that overall imports are generally insensitive to price and exchange rate changes in Pakistan, little attention has been paid on understanding how the disaggregated imports respond to changes in relative prices, exchange rate and income. In order to analyze the response of disaggregated imports to various policy changes, we have estimated disaggregated real import demand functions with following specifications:

Capital imports = $f(ER_t, RP_t, IMP_t)$ (A)
Raw material imports = $f(ER_t, RP_t, Y_t)$ (B)
Consumer imports = $f(ER_t, RP_t, Y_t)$ (C)

Where ER is nominal exchange rate, RP is relative prices defined as the ratio of USA GDP deflator/Pakistan GDP deflator, IMP is the index of manufacturing production used as a proxy to income and Y is real GDP.10 It is expected that the higher domestic economic activity (represented by GDP) would lead to higher imports demand. However, the higher relative prices would discourage imports. Finally the exchange rate depreciation would increase the price of imports in domestic currency and thus decrease the import demand.[11]

The estimation results are reported in **Table B6.3.** As expected, the exchange rate and relative prices have negative influence for both capital and industrial raw materials. However, for consumer imports the impact of exchange rate and relative prices changes are positive with statistical significance. These results can be justified as the imports of consumer goods consist of essential items that are insensitive to the exchange rate devaluation and increase in relative prices level.

Table B6.3: Import Elasticities

	Ranges	
	Upper	**lower**
Log of capital imports		
Log of exchange rate	-2.20	-1.50
Log of relative prices	-1.70	-1.10
Log of IMP	+1.11	+0.97
Log of raw material imports		
Log of exchange rate	-0.72	-0.69
Log of relative prices	-0.88	-0.85
Log of GDP	+1.16	+1.14
Log of consumer imports		
Log of exchange rate	+0.71	+0.64
Log of relative prices	+0.88	+0.70
Log of GDP	+0.87	+0.84

Finally, it may be pertinent to note here, a one percent depreciation of the exchange rate would decrease the imports of capital goods in a range of 2.2 to 1.5 percent, which is much higher in magnitude compared to raw materials estimates. On the other hand, the consumer imports have exchange rate elasticities mostly between +0.71 and +0.64 percent. Thus, the result shows that the imports of capital and industrial raw materials are relatively more elastic to exchange rate devaluation than consumer imports. These regression results are robust for different samples and reflect a range of relevant policy variables.

[9] Based on provisional results of the forthcoming SBP working paper by Sadia Badar, Analyst, Research Department.

[10] In economic literatures, relative price of imports is defined as the index of the unit values of imports in domestic currency/GDP deflator. However, due to high multicolinearity between nominal exchange rate and unit values of imports in domestic currency, it is suggested to use unit values index of world prices as a proxy variable. Finally, the above regression estimates the imports demand function by using USA export prices index as well as the USA GDP deflator as a proxy to unit values index of imports in domestic currency.

[11] All these variables are in log form and the data span covered is 1973-2005.

Table 6.20: Major Imports (Jul-Feb)
Value: million US$; unit value: US$

Commodities	Units	FY05 Value	FY05 Unit Value	FY06 Value	FY06 Unit Value	Abs chg. In value	% chg in Jul-Feb FY06/Jul-Feb FY05 Qty	Value	Unit value
A. Food group		**843.0**	**---**	**1,177.7**	**---**	**334.7**	**---**	**39.7**	**---**
1. Milk & cream	MT	19.9	1,946.5	32.7	2,653.2	12.8	20.4	64.2	36.3
2. Wheat un-milled	MT	53.0	204.9	94.6	176.7	41.6	-	-	-
3. Dry fruits	MT	24.8	682.7	35.8	513.1	11.0	91.8	44.2	-24.8
4. Tea	MT	147.6	1,672.5	152.8	1,659.3	5.2	4.3	3.5	-0.8
5. Spices	MT	34.0	824.3	35.0	677.2	1.0	25.2	2.8	-17.9
6. Edible oil	MT	488.3	487.5	489.3	476.3	1.0	2.5	0.2	-2.3
Soya bean	MT	*29.4*	*971.1*	*10.6*	*719.3*	-18.8	-51.4	-64.0	-25.9
Palm oil	MT	*458.8*	*472.4*	*478.7*	*472.8*	19.8	4.2	4.3	0.1
7. Sugar	MT	2.1	312.8	224.7	348.2	222.5	9306.9	10370.6	11.3
8. Pulses	MT	73.2	308.0	112.9	383.7	39.7	23.8	54.3	24.6
B. Machinery group	---	**3379.2**	**---**	**4572.0**	**---**	**1192.9**	**---**	**35.3**	**---**
1. Power generating	---	240.3	---	348.0	---	107.7	---	44.8	---
2. Office machinery	---	168.5	---	171.9	---	3.4	---	2.0	---
3. Textile	---	616.3	---	585.2	---	(31.2)	---	(5.1)	---
4. Construction & mining	---	96.9	---	101.5	---	4.6	---	4.7	---
5. Electrical machinery & apparatus	---	209.4	---	304.6	---	95.3	---	45.5	---
6. Railway vehicles	---	37.1	---	37.5	---	0.4	---	1.1	---
7. Road motor vehicles	---	591.2	---	851.5	---	260.3	---	44.0	---
8. Aircraft, ships and boats	---	128.1	---	72.8	---	(55.3)	---	(43.2)	---
9. Agricul machinery & implements	---	35.5	---	81.0	---	45.5	---	128.1	---
10. Other	---	1255.9	---	2,018.0	---	762.1	---	60.7	---
C. Petroleum group	**MT**	**2415.6**	**263.7**	**4012.1**	**432.6**	**1596.5**	**1.2**	**66.1**	64.0
1. Petroleum products	MT	1013.9	272.2	1550.4	455.9	536.5	-8.7	52.9	67.5
2. Petroleum crude	MT	1401.7	257.9	2,461.7	419.0	1,060.0	8.1	75.6	62.5
D. Textile group	**MT**	**212.5**	**---**	**359.5**	**---**	**147.0**	**---**	**69.2**	**---**
1. Synthetic fiber	MT	98.5	1828.0	166.7	1745.5	68.2	77.2	69.2	-4.5
2. Synthetic & artificial silk yarn	MT	87.8	1818.0	160.8	1,843.0	73.0	80.6	83.1	1.4
3. Worn clothing	MT	26.1	321.9	31.9	343.4	5.8	14.6	22.2	6.7
E. Agri and other chemicals	**MT**	**2302.6**	**---**	**2924.4**	**---**	**621.8**	**---**	**27.0**	**---**
1. Fertilizer	MT	258.0	239.7	457.3	283.4	199.3	49.9	77.3	18.2
2. Insecticides	MT	102.7	3453.8	85.1	3471.5	-17.6	-17.5	-17.1	0.5
3. Plastic materials	MT	493.0	1133.0	678.7	1,264.0	185.6	23.4	37.7	11.6
4. Medicinal products	MT	178.6	24917.7	213.5	32,446.5	34.8	-8.2	19.5	30.2
5. Others	---	1270.3	---	1,489.9	---	219.6	---	17.3	---
F. Metal group	**MT**	**726.0**	**---**	**1226.6**	**---**	**500.6**	**---**	**69.0**	**---**
1. Iron and Steel Scrap	MT	133.1	205.8	241.1	269.5	108.0	38.4	81.2	30.9
2. Iron and Steel	MT	529.7	457.1	910.2	562.6	380.6	39.6	71.8	23.1
3. Aluminum wrought & Worked	--	63.3	---	75.3	---	12.0	---	19.0	---
G. Miscellaneous group		**297.3**	**---**	**377.4**	**---**	**80.1**	**---**	**26.9**	**---**
1. Rubber crude	MT	57.2	1077.5	69.5	1180.5	12.3	11.0	21.6	9.6
2. Rubber tyres & tubes	No.	86.4	26.3	*104.9*	*26.4*	*18.6*	21.4	*21.5*	0.1
3. Wood & cork	---	18.4	---	*23.8*	---	*5.3*	---	*29.0*	---
4. Jute	MT	21.0	301.8	*28.4*	*357.0*	*7.5*	14.6	*35.6*	18.3
5. Paper/ paper board & manufac	MT	114.4	634.4	150.8	721.4	36.4	15.9	31.8	13.7
H. Others		**2134.7**		**3358.3**		**1223.6**	**---**	**57.3**	**---**
Total imports:		**12310.9**		**18008.0**		**5697.1**		**46.3**	

Source: Federal Bureau of Statistics

Machinery Group

The machinery group imports depicted relatively lower growth of 35.3 percent YoY during Jul-Feb FY06 as compared to the extraordinary growth of 56 percent YoY in the corresponding period of FY05. As a result, its share in the total imports growth has decreased from 37.5 percent during Jul-Feb FY05 to 21 percent in Jul-Feb FY06. The deceleration in import growth of machinery was mainly driven by decline in import of power generating machinery coupled with nominal growth in the import of textile machinery (see **Table 6.21**).

Table 6.21: Analysis of Machinery Group (Jul-Feb)

	FY05		FY06	
	%YoY Growth	% Share	%YoY Growth	% Share
Machinery group	56	100.0	35	100.0
Road motor vehicles	41	17.5	44	18.6
Textile machinery	68	18.2	-5	12.8
Power generating machinery	31	7.1	45	7.6
Office machinery	24	5.0	2	3.8
Electrical machinery & apparatus	35	6.2	46	6.7
Construction & mining machinery	59	2.9	5	2.2
Railway vehicles	-30	1.1	1	0.8
Aircraft, ships and boats	15	3.8	-43	1.6
Agricultural machinery & implements	96	1.1	128	1.8
Other machinery	88	37.2	61	44.1

Source: Federal Bureau of Statistics

However, road motor vehicles and electrical machinery and apparatus continued to depict strong import growth. Unlike the previous year when the group import was primarily driven by the textile machinery, construction machinery, road motor vehicles and other machinery, the machinery, import growth this year was mainly driven by other machinery, road motor vehicles and electrical machinery and apparatus.

Electrical Machinery and apparatus

The electrical machinery and apparatus imports depicted a robust growth of 46 percent YoY during Jul-Feb FY06 on the top of the 35 percent YoY growth in the corresponding period of last year. Consequently the category share in total machinery imports has increased to 6.7 percent from that of 6.2 percent in the corresponding period of last year. The major contributors in this group were discs for laser reading system, other electrical appliances such as switches, incorporated electronics, networking equipments and energy saving lamps.

Road Motor Vehicles

The import growth of road motor vehicles was 44.0 percent YoY during Jul-Feb FY06 as compared to 41 percent YoY growth in the same period of FY05. However according to information available up to October 2005, the share of the

vehicles which are directly contributing in generating the economic activity is almost 49.5 percent, while the share of seemingly unproductive or indirectly productive motor cars,[12] bicycles& other delivery tri cycles and baby carriages & parts there of, are 50.5 percent (see **Table 6.22**). The rise in road motor vehicles imports may be attributed to higher demand on the back of auto leasing finance facility and duty free imports of used cars under gift scheme, transfer of residence scheme and personal luggage scheme.

Other Machinery

Other machinery observed substantial growth of 61 percent during Jul-Feb FY06 as against 88 percent growth in the previous year. Resultantly, the share of *other machinery* in the total machinery imports increased considerably to 44.1 percent during Jul-Jan FY06 from 37.2 percent in the corresponding period of last year. The major contributors in this group were telecom & sound recording equipments, general industrial machinery & equipments/ parts and metal working machinery. The transmission apparatus and cellular mobile phones has the dominant share in the telecom and sound recording equipment imports on the back of fast growing telecommunication industry in Pakistan and expanding bank credit to this sector.

Table 6.22: Analysis of Road Motor Vehicles

	% Share in total vehicles imports	
	Jul-Oct FY05	**Jul-Oct FY06**
Other tractors	2.07	8.01
Motor vehicles (10 persons or more)	6.01	3.61
Motor cars &other motor vehicles	47.75	50.35
Motor vehicles for transport goods	14.70	15.62
Special purpose motor vehicles	1.58	2.04
Parts/accessoires motor vehicle	12.58	12.66
Work trucks, self-propelled, parts	0.16	0.16
Motor cycle, cycle fit auxil motor	6.99	3.41
Bicycles, other delivery tricycle	0.18	0.13
Invalid carriages motorized/mech	0.02	0.03
Part accessories vehicle	7.91	3.83
Baby carriages & parts thereof	0.01	0.04
Trailers & semi trailer, parts	0.06	0.10
	100.00	100.00

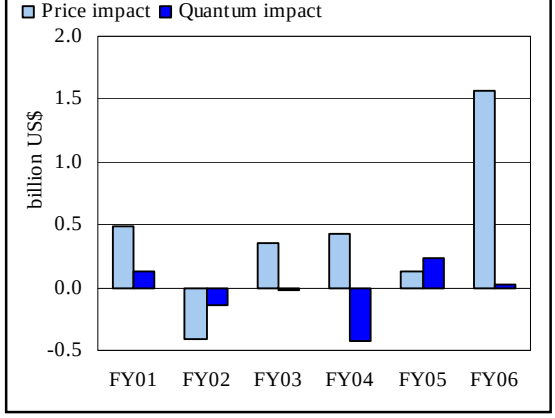
Source: Federal Bureau of Statistics

[12] The motor cars include the Completely Buildup Units and CKDs / SKDs. The import of CKDs and SKDs also helps in generating the economic activity.

Petroleum Group

Against a 30.2 percent YoY increase during Jul-Feb FY05, petroleum group imports increased by 66.1 percent during the corresponding period of FY06 mainly because of an increase in the international oil prices. Although the increase in petroleum product was mainly driven by the high global oil prices, the 75.6 percent YoY increase in the petroleum crude was contributed by both price (98 percent) and quantum (2 percent) impact. The analysis suggests that effects of increase in the international oil prices on the petroleum import bill depicted gradual increase since FY03. However, the price impact in Jul-Feb FY06 is the largest in absolute value term so far (see **Figure 6.21**).

Figure 6.21: Petroleum Group Imports (Jul-Feb)



Metal Group

The metal group imports witnessed a 69 percent YoY growth during the period under consideration against 71.1 percent YoY in the corresponding period of previous year. The iron & steel scraps and iron & steel were the major contributor in this group recording 81.2 percent and 71.8 percent import growth respectively. The demand for iron and steel scraps may have emerged from the low production of Pakistan Steel mill probably because of some technical fault and low ship breaking in Pakistan. Where as the increased demand for iron and steel may be attributed to higher growth of automobiles and consumer durables.

Other Imports

The significant increase in import of oil seeds & oleaginous fruits, gold (monetary & non-monetary), manufactures of metal, synthetic & regenerated fiber, professional, scientific & control and iron ores & concentrates pushed the other import to 57.3 percent during Jul-Feb FY06 as against 16.2 percent growth in the corresponding period of last year.