5 External Sector

5.1 Overview

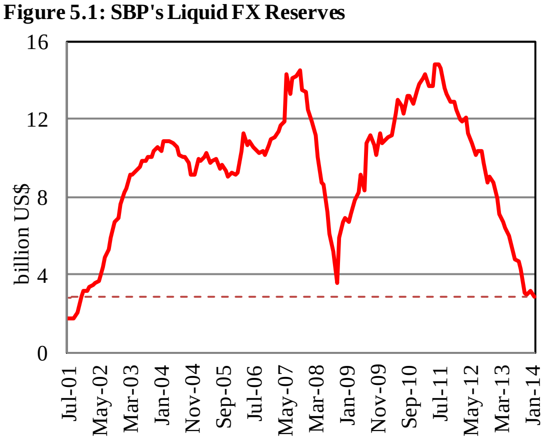
The concerns over Pakistan's balance of payments remained during H1-FY14. While the current account deficit remained modest during the quarter, inadequate financial flows put the country's FX reserves under pressure (**Table 5.1**). In overall terms, the country's FX reserves declined by US$ 2.7 billion in H1-FY14. Having said this, a lumpy inflow of US$ 1.5 billion from a GCC country in March 2014, has substantially improved market sentiments in the FX market, with the PKR even dropping below 100 per US Dollar.

Table 5.1: Summary of External Account
million US$

	Q2		H1	
	FY13	FY14	FY13	FY14
Current account balance	**-522**	**-385**	**-83**	**-1,591**
Trade balance	-4,281	-4,047	-7,906	-8,290
Home remittances	3,518	3,863	7,117	7,790
Financial flows				
IMF loans (net)	-810	-583	-1,254	-891
Other FX loans (net)	263	-20	341	-169
Direct investment in Pakistan (net)	444	185	569	416
Liquid FX reserves (net change)	-1,064	-1,503	-1,430	-2,704
SBP's liquid reserves (net change)	-1,371	-1,214	-1,817	-2,528

Source: State Bank of Pakistan

Figure 5.1: SBP's Liquid FX Reserves



Source: State Bank of Pakistan

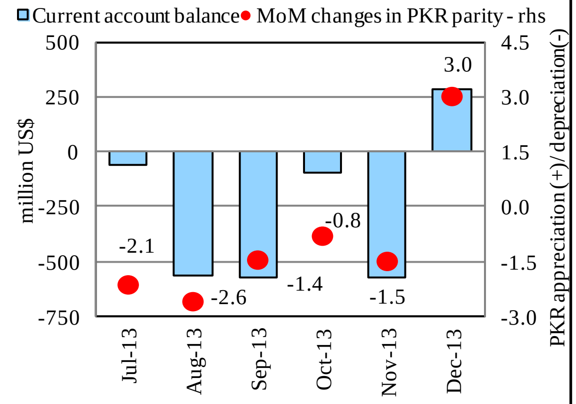
Returning to the quarter under review, November 2013 was particularly difficult as Pakistan repaid US$ 725 million to the IMF.[1] By end-November 2013, SBP's liquid reserves had reached US$ 3.0 billion (**Figure 5.1**), and the PKR depreciated by 1.5 percent during the month.

However, some improvement was witnessed in December

[1] This included US$ 577 million gross repayment of the SBA loan.

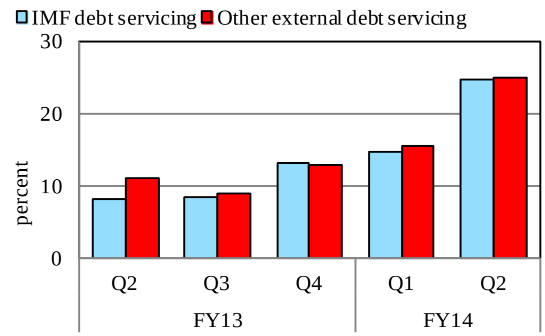
2013, which can be traced to: (i) a surplus in the current account; (ii) receipt of the second tranche of US$ 554 million EFF loan from the IMF; and (iii) lower SBA repayments to the IMF, as the bulk of the annual repayments were made in preceding months. Consequently, the PKR recovered – gaining 3.0 percent during the month (**Figure 5.2**). In fact, excluding CSF inflows, the current account improved significantly in December 2013, compared to the same month last year.[2] More importantly, SBP's adjusted NIR target for end-December 2013, was also met.

Figure 5.2: Performance of Current Account and Exchange Rate



Source: State Bank of Pakistan

Figure 5.3: Payment Burden on SBP's FX Reserves



Calculated as payments during the quarter, divided by SBP's liquid FX reserves at the start of the quarter

Source: State Bank of Pakistan

Current account deficit increased to US$ 1.6 billion in H1-FY14, compared to only US$ 0.1 billion in H1-FY13. This increase was concentrated mainly in Q1; in Q2-FY14, the deficit actually recorded a decline. Improvement in the current account in Q2-FY14 came mainly from a YoY decline in the trade deficit, and an impressive growth in home remittances.[3] However, this improvement was more than offset by deteriorating financial flows, as

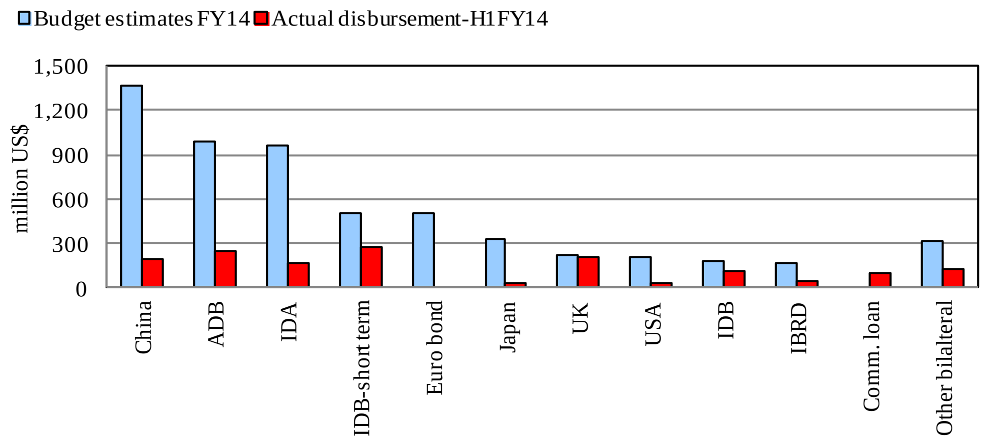
[2] In Q2-FY13, the country received CSF inflows of US$ 688 million, whereas in Q2-FY14, CSF inflows were only US$ 322 million.

[3] Trade deficit recorded a 5.5 percent YoY decline in Q2-FY14, whereas home remittances recorded 9.8 percent YoY increase in this period.

direct investment declined, and repayments of external loans far exceeded gross disbursements during Q2-FY14 (**Table 5.1**). IMF repayments were especially large, which alone used 24.6 percent of SBP's FX reserves during the quarter (**Figure 5.3**).

Having said this, the pressure on SBP's reserves should ease in the second half of the

Figure 5.4: Disbursement from External Creditors vis-a-vis Budget Estimates



Source: Economic Affairs Division, Ministry of Finance

year. We take this view as Pakistan has overcome the lumpy repayments to the IMF, and for the remaining year, repayments will be largely offset by disbursements from the IMF.[4] While this factor alone is sufficient to reduce pressure on FX reserves in H2-FY14, the government is also expecting official FX inflows in the second half of FY14, through various sources. These include: (i) financial assistance from other IFIs that are linked to various projects in the country (**Figure 5.4**); (ii) inflows from bilateral creditors especially China and Japan; (iii) proceeds of PTCL privatization, and the auction of 3G licenses; (iv) CSF inflows of US$ 702 million (of which, US$ 352 million were received in February 2014); (v) issuance of a US$ 500 million Euro Bond expected in Q4-FY14; and (vi) other commercial loans.

Outlook for the current account also seems positive with favorable global commodity prices in months ahead. More specifically, after recording a temporary increase in December 2013, crude oil prices declined again in January 2014, and are expected to

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[4] A net inflow of US$ 4.0 million is expected from the IMF in Q3-FY14, whereas a net outflow of US$ 75.0 million is expected in Q4-FY14.

stay soft for the rest of the year. Prices of metals and edible oil have also softened during the month, which will help contain import payments.[5] In contrast, cotton prices have surged in recent months which bode well for Pakistan's export earnings. In addition, the award of GSP Plus status by the EU is likely to support the country's exports. For the full year, therefore, we expect the current account deficit to remain less than US$ 3.5 billion.

5.2 Current Account

The current account posted a deficit of US$ 0.4 billion in Q2-FY14, compared to US$ 0.5 billion in the corresponding quarter of FY13 (**Table 5.2**). As mentioned earlier, this improvement came from a rise in home remittances, and a reduction in the trade deficit during the quarter. In overall terms, however, the first half of FY14 posted a much larger deficit compared to the corresponding period in FY13.

Table 5.2: Summary of the Current Account[1]
million US$

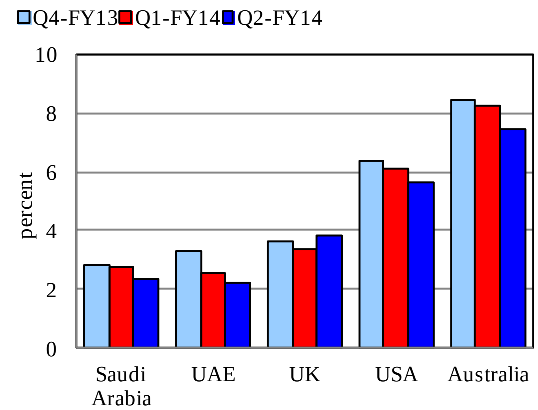
	Q1		Q2		H1	
	FY13	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**
Current account balance	**439**	**-1,206**	**-522**	**-385**	**-83**	**-1,591**
Excl. CSF	-679	-1,206	-1,210	-707	-1,889	-1,913
I. Balance on trade in goods	**-3,625**	**-4,243**	**-4,281**	**-4,047**	**-7,906**	**-8,290**
Exports of goods FOB	6,151	6,275	6,003	6,273	12,154	12,548
Imports of goods FOB	9,776	10,518	10,284	10,320	20,060	20,838
II. Balance on trade in services	**108**	**-890**	**-155**	**-562**	**-47**	**-1,452**
Exports of services	2,173	992	2,058	1,384	4,231	2,376
o/w CSF	1,118	0	688	322	1,806	322
Imports of services	2,065	1,882	2,213	1,946	4,278	3,828
III. Balance on primary income[2]	**-692**	**-809**	**-1,020**	**-1,156**	**-1,712**	**-1,965**
IV. Balance on secondary income[3]	**4,648**	**4,736**	**4,934**	**5,380**	**9,582**	**10,116**
Home remittances	3,599	3,927	3,518	3,863	7,117	7,790
FE-25 deposits	67	125	276	315	343	440

[1]This table is prepared as per the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM-6).
[2]Primary income includes compensation of employees; dividend incomes; reinvested earnings; interest; rent; etc.
[3]Secondary income account shows current transfers between residents and non-residents.
Source: State Bank of Pakistan

[5] In FY13, Pakistan paid US$ 2.4 billion and US$ 2.0 billion for the import of metals and edible oil, respectively.

While trade deficit was higher in H1-FY14 compared to the same period last year, it recorded a YoY decline in Q2-FY14, mainly due to a rise in the country's exports (**Section 5.5**). Imports, on the other hand, were stagnant compared to the previous year. The deficit in services recorded a YoY increase in Q2-FY14, primarily because Pakistan received a smaller amount under CSF during the quarter compared to Q2-FY13.

Figure 5.5: Cost of Sending Remittance to Pakistan



Source: World Bank

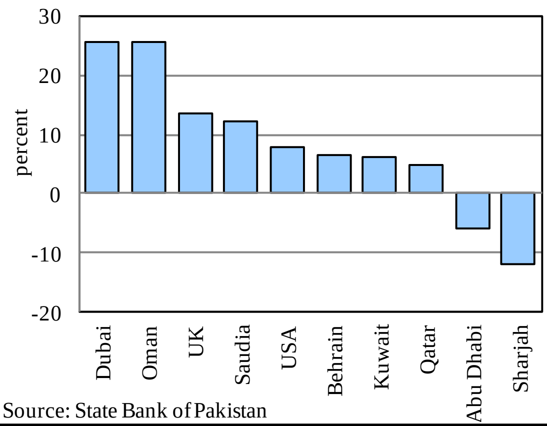
A major positive in the current account was the 9.5 percent YoY growth in home remittances during H1-FY14. This increase could be attributed to: (i) an increase in number of Pakistanis working abroad;[6] (ii) the economic recovery in the GCC region; (iii) a decline in the cost of sending remittances (**Figure 5.5**);[7] (iv) increase in the cost of living in Pakistan; (v) continuous tightening of anti-money laundering policies; and (vi) greater involvement of domestic Islamic banks, and other small-sized banks in the remittance business.[8] While remittance growth in Q1-FY14 can be traced to the UK and Saudi Arabia, most of the increase during Q2-FY14 came from Dubai and Oman (**Figure 5.6**).

[6] According to the Bureau of Emigration and Overseas Employment, 0.6 million Pakistanis migrated to work abroad during 2013.

[7] Due to stiff competition in the remittance market, money transfer organizations (e.g., domestic commercial banks, Western Union, Money Gram, and Xpress Money, etc.) are striving to attract more customers by reducing transfer charges and exchange margins.

[8] The share of Islamic banks in total YoY *increase* in home remittances during Q2-FY14 was 19 percent, compared to only 3.9 percent in Q2-FY13.

Figure 5.6: YoY Growth in Remittances during Jul-Dec 2013



Source: State Bank of Pakistan

It may, however, be noted that changing dynamics of the labor market throughout the GCC, can potentially weaken job opportunities for Pakistanis and other Asians in this region.[9] On the positive side, Pakistani banks are fast expanding their retail network with Money Transfer Organizations all across the world, to shift remittance inflows to the formal channel. As mentioned in the *First Quarterly Report* for FY14, the largest MTO – Western Union, is now offering free remittance services for Pakistanis for direct money transfers into bank deposits. In addition to this, domestic Islamic banks have also entered the remittances market recently, and are aggressively marketing their products to expatriate Pakistanis. Therefore, we are optimistic about the uptrend in remittances, and expect to meet the target of US$ 15.1 billion set in the Annual Plan for 2013-14.

5.3 Financial Account

Although concerns on the financial account remained in place throughout H1-FY14, these were more pronounced during Q2-FY14 as foreign investments and debt inflows declined (**Table 5.3**).

Foreign investment

Direct investment in Pakistan fell by 26.9 percent YoY in H1-FY14, whereas FDI flows to developing economies posted a recovery.[10] This decline was seen primarily

[9] Presently, foreign workers constitute about 60 percent of the working population in GCC countries. Concern about the need to employ a larger number of nationals in the GCC, is likely to cap (or reduce) migrant workers from Asia. For instance, Saudi Arabia recently launched a crackdown on illegal immigrants, and has also changed the rules of sponsorship. Similarly, in Oman, the government has decided to restrict the share of foreign workers to 33 percent in total employment, from 39 percent presently. This will be done by reducing the wage-gap between public and private sector via increasing the minimum wages in private sector in a phased manner.

[10] Developing economies accounted for more than half of the global FDI in 2013, and reached a new high at an estimated US$ 759 billion. This increase was driven mainly by Latin American, Caribbean and

Table 5.3: Summary of the Financial Account[1]
million US$

	Q1		Q2		H1	
	FY13	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**
Financial account	**406**	**-382**	**156**	**385**	**562**	**3**
Direct investment	**-102**	**-172**	**-419**	**-157**	**-521**	**-329**
Direct investment abroad	23	59	25	28	48	87
Direct investment in Pakistan	125	231	444	185	569	416
Portfolio investment	**-109**	**-107**	**5**	**48**	**-104**	**-59**
Portfolio investment abroad	5	1	17	26	22	27
Portfolio investment in Pakistan	114	108	12	-22	126	86
Other investment	**617**	**-103**	**570**	**492**	**1,187**	**389**
Net acquisition of financial assets	420	-195	624	167	1,044	-28
Central bank	0	0	0	0	0	0
Deposit-taking corporations	285	-190	418	298	703	108
General Government	-4	-2	2	2	-2	0
Other sector	139	-3	204	-133	343	-136
Net incurrence of liabilities	-197	-92	54	-325	-143	-417
Central bank	0	245	-2	0	-2	245
Deposit-taking corporations	-310	-5	-28	-155	-338	-160
General Government	17	-258	312	-113	329	-371
Disbursements	398	525	1,008	690	1,406	1,215
Amortization	381	783	696	803	1,077	1,586
Other sectors	96	-74	-228	-57	-132	-131

[1] This table is prepared as per the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM-6).
Source: State Bank of Pakistan

in Q2-FY14, when FDI posted a fall of 58.3 percent YoY. In our view, the negative perception about Pakistan that can be traced to the on-going war in Afghanistan has compounded the issues of energy availability and domestic security concerns; these together have led to a fall in foreign investment in the country. Nevertheless, the decline in FDI *within* the energy sector is worrisome (**Table 5.4**); in Q2-FY13,

African countries. FDI in BRICS (Brazil-Russia-India-China-South Africa) is estimated to have increased by 20.6 percent in 2013 over the previous year. As far as developing Asia was concerned, the performance of FDI in 2013 continued to diverge: 3 percent YoY growth in South Asia; 2 percent in South East Asia; 1 percent in East Asia; and -20 percent in West Asia – mainly due to political instability in Turkey, which recorded a YoY decline of 15 percent during the year. Within South Asia, India experienced FDI growth of 17 percent in 2013 (Source: Global Investment Trends Monitor, UNCTAD, No. 15, dated January 28, 2014).

there were considerable equity investments in oil & gas, and thermal power companies, which were not present in Q2-FY14.[11] Nonetheless, it is expected that FDI in the energy sector will pick up some pace in the second half of FY14. We take this view because the Ministry of Petroleum and Natural Resources has recently awarded 50 new blocks for oil and gas exploration to eight companies.[12] These include domestic companies, e.g., PPL and OGDCL, and foreign ones including Austria-based OMV Pakistan, and Canada-based Tallahhasse.[13]

Table 5.4: Direct Investment in Pakistan during Q2
million US$

		Inflow	Outflows	Net
Energy	FY13	259.1	46.8	212.2
	FY14	163.3	61.2	102.1
Non-energy	FY13	378.7	146.9	231.8
	FY14	287.1	204.0	83.1

Source: State Bank of Pakistan

Net FX Liabilities

Net FX liabilities declined by US$ 417 million in H1-FY14. This decline was concentrated mainly in the second quarter: in Q2-FY14, net FX liabilities declined by US$ 325 million, compared to an increase of US$ 54 million in Q2-FY13.[14] The decline in net FX liabilities was driven mainly by higher debt retirements by the government, which more than offset weak official disbursements (**Chapter 4**). In Q2-FY14, the government has made larger repayments to the IMF compared to Q2-FY13, on account of budgetary support and emergency and natural disaster assistance (ENDA). As far as disbursements are concerned, the government received only a small fraction of the full-year budgeted FX inflows during Jul-Dec FY14; the remaining inflows are expected to come in the second half of the year.

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[11] This investment was in the form of acquisition of new exploration block by Italy-based ENI; and conversion of US$ 50 million debt finance into equity finance by two IFIs in the KE (previously KESC). Earlier, a debt finance of US$ 275 million was provided by the ADB and IFC partly for KE's one of the most efficient power plants, the 560 MW BQPS-II in 2010. As per the financing agreement, the two IFIs had the right to convert up to US$ 50 million of their debt into equity before Dec 31, 2012.

[12] Since the Ministry of petroleum and Natural Resources has recently awarded 50 new blocks for oil and gas exploration, it is expected that the FDI in this sector will pick up in H2-FY14. 21of these blocks are located in Baluchistan, 15 in Punjab, 8 in Khyber Pakhtunkhwa, and 6 in Sindh province. The total area of these blocks is about 103,348 Sq. Kms, which is around 38 percent of the area already under exploration.

[13] Source: http://www.mpnr.gov.pk/gop.

[14] This implies that gross loan disbursements were lower than gross retirements in Q2-FY14, and in net terms, the country has *repaid* US$ 325 million to the rest of the world. In Q2-FY13, there was a net *inflow* of US$ 54 million (net) from the rest of the world. BoP support from the IMF (i.e., SBA and EFF loans) is not included in the Financial Account.

5.4 Reserves and Exchange rate

The country's liquid FX reserves declined by US$ 2.7 billion during H1-FY14, to reach US$ 8.3 billion at end-December 2013 – a level not sufficient to meet the benchmark 3-months of imports (**Table 5.5**). Since pressure on FX reserves was anticipated, the government had been arranging short-term BoP support from various sources. In this respect, the government was able to arrange a commercial loan of US$ 225 million, of which US$ 100 million was realized in November 2013, and the rest was disbursed after H1-FY14.

Table 5.5: Pakistan's Liquid FX Reserves

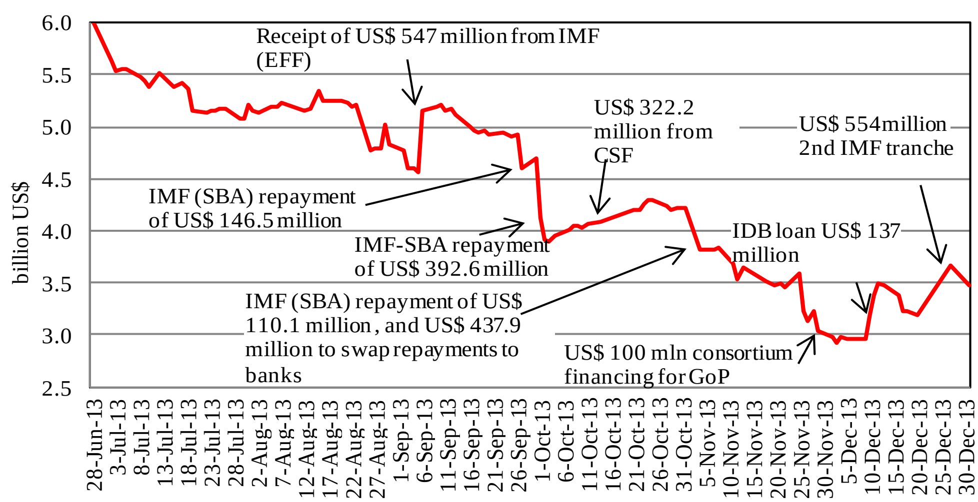
billion US$

	SBP	Commercial banks	Total	Weeks of imports
Jun-13	6.0	5.0	11.0	14.3
Jul-13	5.2	5.1	10.3	13.3
Aug-13	4.8	5.2	10.0	12.9
Sep-13	4.7	5.1	9.8	12.5
Oct-13	4.2	5.3	9.5	12.2
Nov-13	3.0	5.2	8.2	10.6
Dec-13	3.5	4.8	8.3	10.6

Source: State Bank of Pakistan

Within the banking system, the decline in SBP's FX reserves was more pronounced, since most of the FX pressure came from official payments. In fact, by the end of the first week of December 2013, SBP's reserves fell to US$ 2.9 billion – the lowest level since November 2001. In subsequent weeks, there was some recovery following the receipt of US$ 544 million from the IMF, which shored up SBP's reserves to US$ 3.5

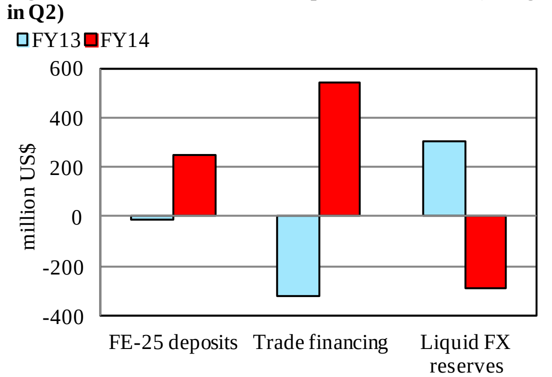
Figure 5.7: SBP Liquid FX Reserves



Source: State Bank of Pakistan

billion (**Figure 5.7**). Encouragingly, SBP's adjusted NIR target for end-December 2013 agreed with the IMF, was duly met.

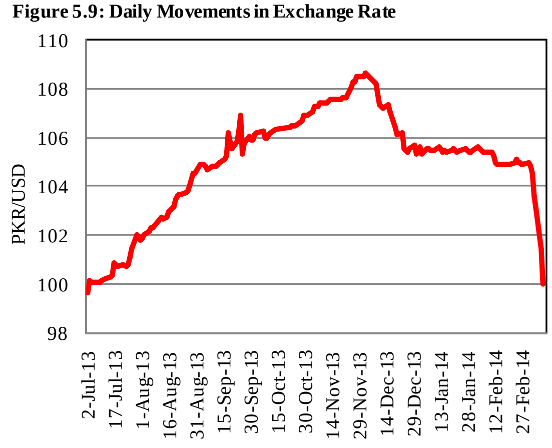
Figure 5.8: Commercial Banks' Liquid FX Reserves* (changes in Q2)



*Calculated as total FE-25 deposits minus FX loans extended for trade financing
Source: State Bank of Pakistan

Commercial banks' reserves also posted a decline of US$ 0.3 billion during Q2-FY14. This decline was due to a sharp increase in FX lending by banks for trade financing, which more than offset the rise in mobilization of FX deposits during the quarter (**Figure 5.8**). A relatively stable PKR was mainly responsible for a revival in FX lending during Q2-FY14, as interest rate differential between PKR and FX lending was slightly lower than the corresponding quarter of FY13. More specifically, local importers were facing an average interest rate differential of 8.2 percentage points during Q2-FY13 between PKR and US Dollar loans; importers could not draw on this margin due to uncertainty in financial flows and PKR trend. In Q2-FY14, although the interest rate differential declined to 7.0 percentage points, the trend in PKR was much favorable, as Rupee appreciation reduced the cost of borrowing.

Figure 5.9: Daily Movements in Exchange Rate



Source: State Bank of Pakistan

In overall terms, PKR gained 0.7 percent against the US Dollar during Q2-FY14, compared to a depreciation of 6.0 percent in the preceding quarter. This was driven mainly by a surplus in the current account in December 2013, which caused a

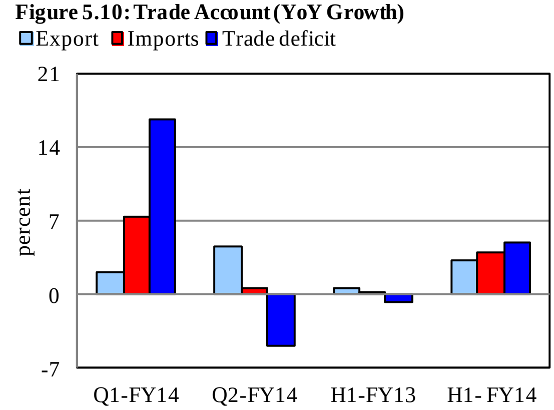
PKR appreciation of 3.0 percent during the month. This appreciation more than offset the PKR depreciation during October and November 2013 that had taken the PKR parity to 108.5 (**Figure 5.9**). By the time Pakistan received the second IMF tranche, the PKR had already gained 2.2 percent to settle around 106.15 PKR/USD.[15] After remaining stable throughout January and February 2014, the PKR appreciated significantly in March, following a shift in sentiments in the FX market (**Chapter 1**).

5.5 Trade Account[16]

The trade deficit reached US$ 8.3 billion during H1-FY14, posting 4.9 percent increase compared to the same period last year. This entire deterioration was witnessed in Q1-FY14,[17] whereas the second quarter recorded a 5.5 percent improvement in the deficit compared to the same period last year (**Figure 5.10**). This improvement in the second quarter can be traced to a 4.5 percent YoY rise in exports, which outpaced a marginal 0.3 percent increase in imports during the quarter.[18]

The narrowing of the trade deficit in the second quarter can be traced to: (i) the announced award of GSP Plus status to Pakistan that boosted textile exports, as exporters have been strengthening their business contacts with the EU importers for the last few months; (ii) better international prices of rice were reflected in higher exports; and

Figure 5.10: Trade Account (YoY Growth)



Source: State Bank of Pakistan

[15] The PKR had appreciated by 2.2 percent during the period end-November to 20th December 2013. Pakistan received 2nd tranche of EFF loan in the fourth week.

[16] The analysis in this section is based on exchange record data reported by SBP, which differs from the customs record data reported by the Pakistan Bureau of Statistics.

[17] The deterioration in trade account during Q1-FY14 was mainly due to higher POL imports after the settlement of circular debt that ensured smoother energy supplies, and the increased CNG load shedding for road motor vehicles that raised the demand for motor spirit in the country.

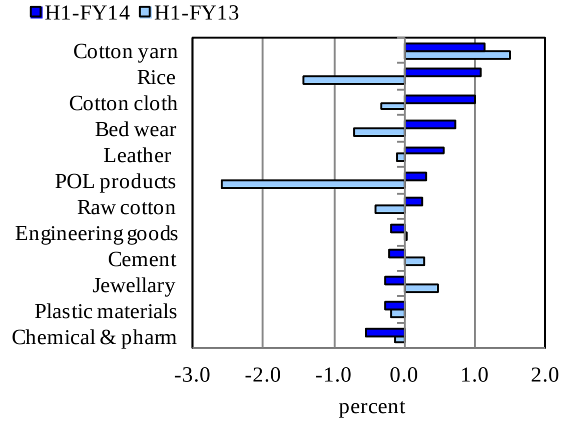
[18] Trade deficit declined in all three months of Q2-FY14.

(iii) a significant decline in crude petroleum and raw cotton imports.

Exports

Exports posted 3.2 percent growth during H1-FY14 compared with 0.6 percent last year. More specifically, export growth was 4.5 percent in Q2-FY14, from 2.0 percent in the first quarter, even though the PKR parity had stabilized in Q2-FY14 compared to the quarter before. The increase in exports during the second quarter of FY14 was concentrated mainly in textiles, while some non-textile categories also recorded decent growth. Major items that recorded an improvement include: cotton yarn, rice, cotton cloth, bed wear, leather, etc. (**Figure 5.11**).

Figure 5.11: Contribution to Export Growth



Source: State Bank of Pakistan

Textiles

Pakistan's textile exports reached US$ 6.9 billion during H1-FY14, posting a 7.9 percent growth over that in the same period last year. Encouragingly, this increase emanated from both low and high value added categories (**Table 5.6**).

More specifically, cotton yarn exports recorded a significant 18.5 percent increase in Q2-FY14, compared to the same period last year. Pakistani exporters are taking advantage of a shift in China's import policy, which is focused on cotton yarn rather

Table 5.6: Textile Exports during H1

	Values in million US$		Contribution to textiles export growth (percent)	
	FY13	FY14	FY13	FY14
Textile	**6,362.8**	**6,866.8**	**100**	**100**
Cotton	86.3	118.0	18.4	6.3
Yarn	1,009.6	1,147.4	-64.4	27.3
Cotton cloth	1,287.3	1,408.9	14.2	24.1
Other textile materials	368.1	350.0	8.7	-3.6
Synthetic textile	234.6	218.1	52.7	-3.3
Knitwear	1,026.2	1,084.6	96.5	11.6
Bed wear	919.3	1,008.1	32.1	17.6
Towels	344.4	361.7	-5.5	3.4
Readymade garments	819.9	868.7	-45.0	9.7
Other made up articles	267.1	301.3	-7.8	6.8

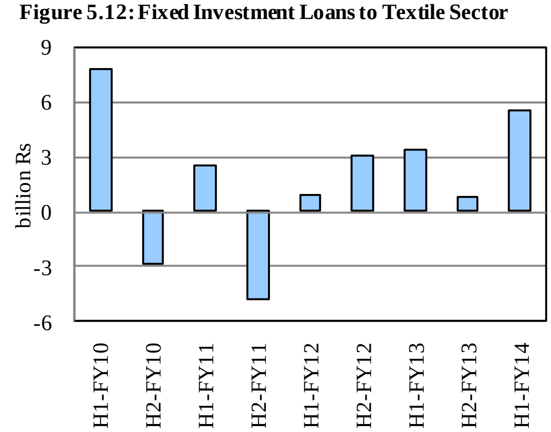
Source: State Bank of Pakistan

than raw cotton. If this trend continues, exports of cotton yarn will continue to show robust growth. Furthermore, duty free access provided by the EU under GSP Plus, bodes well for the entire textile sector. Pakistan mainly exports readymade garments; knitwear and bed wear to the EU, which is the mainstay of the country's textile sector.

According to market estimates, the possible gain to Pakistan's textile exports from GSP Plus lies in the range of US$ 0.5 – 1.0 billion annually. To capitalize these gains, textile exporters have started to increase their capacity, which is evident from the surge in fixed investment loans to the textile sector during H1-FY14 (**Figure 5.12**). Furthermore, the encouraging prospects of the country's textile exports have also attracted foreign investors, particularly from China.[19]

However, Pakistan may not be able to fully reap the benefits of this opportunity due to a number of domestic and external factors. The domestic factors include rising cost of production; low productivity; law and order issues; volatile prices of raw materials; and difficulty in achieving the required market standards. On the external, certain restrictions by the EU to safeguard its industry, could restrict Pakistan's gains from this facility.

Figure 5.12: Fixed Investment Loans to Textile Sector



Source: State Bank of Pakistan

Non-Textile Exports

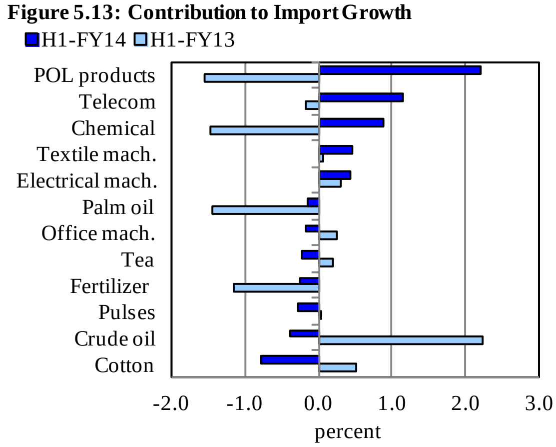
In non-textile exports, *rice* is the major source of foreign exchange earnings. Rice exports recovered strongly after two years and posted 17.6 percent growth during H1-FY14. Both basmati and non-basmati varieties of rice have contributed in this increase.

Leather *(tanned and manufactures)* also contributed significantly to exports growth. The Increase in leather exports

[19] Chinese investors are in the process of acquiring a 52 percent share of a large Pakistani textile company. This company is engaged in the business of manufacturing and export of knitwear and ready-made garments and has a wide customer range including brands like Addidas, Puma, Levis, Dockers, and Reebok.

can be traced to the higher demand from European countries, as our major competitor – China – has moved into high value-added products.

Figure 5.13: Contribution to Import Growth



Source: State Bank of Pakistan

Imports

Imports payments increased by 3.9 percent during H1-FY14, compared with 0.1 percent last year. However, the growth was significantly lower (0.6 percent) in the second quarter as compared with the first quarter (7.5 percent). This stagnation in imports was mainly due to decline in cotton, crude oil, pulses, fertilizers, and palm oil imports (**Figure 5.13**).

The fall in crude petroleum imports can be traced to sharp depreciation in the PKR till early December, and higher inventories which discouraged its imports.[20] On the other hand, import of raw cotton witnessed a significant decline compared to the same period last year because of early arrival of cotton in the market, and better cotton yield, especially in Punjab.

As regards telecom imports, in the run up to the auction of 3G licenses, a surge in telecom imports by cellular companies was already anticipated. Furthermore, textile machinery imports increased, as textile exporters strive to capitalize on improved access to the EU from January 2014.

[20] Crude imports recorded 15.4 percent YoY increase in Q1-FY14.