Chapter 14 | TRADE AND COMMERCE – BALANCE OF PAYMENTS

The intensity of the external challenges has increased with growing pressure of CPEC related imports leading to widening trade imbalance, falling exports and declining remittances. Financial inflows has improved but were unable to cope with the pace of rising current account deficit thereby resulting in drawdown on foreign exchange reserves. The government has launched export package to address receding exports besides ensuring uninterrupted energy supplies and addressing liquidity constraints. The non-exports earnings remained oblivious from the policy radar and need to be addressed to lessen external sector vulnerabilities. Increasing imports of machinery augur well with rising economic activity and future growth prospects. Falling exports and remittances, and expansion in imports have widened the current account deficit and lack of commensurate financial inflows resulted in enhanced pressure on forex reserves. The buildup in the current account deficit has a positive dimension as it is primarily driven by investment related inflows rather than consumption.

However, the financial account is expected to give boost to the external sector performance. The Foreign Direct and Portfolio Investment are projected to increase on the back of reclassification of Pakistan Stock market in the emerging market index of MSCI. The foreign private investment (FPI) has depicted rising trend during the first nine months of FY17.

Remittances, after remaining buoyant for more than a decade, have shown some signs of stagnation. This is partially contributed by decline in oil prices, and slowdown in originating countries, low inflation in the developed world, a tightening regulatory landscape governing cross-border money transfer in the US which has increased costs for banks and money transfer operators and the evolving scenario after Brexit. The problem is further aggravated by shrinking employment opportunities in host countries.

Performance Review 2016-17

The external sector targets of Annual Plan 2016-17 were based on positive outlook. Exports target was set at $ 24.8 billion which was higher than US$ 22 billion recorded during 2015-16. Imports were projected at $ 45.2 billion as against US$ 40.5 billion achieved during 2015-16.The trade deficit was targeted at $ 20.5 billion compared to $ 18.5 billion in 2015-16. The current account deficit was targeted to be $4.5 billion in 2016-17 as against $ 3.4 billion in 2015-16. However, in terms of percent of GDP it was targeted at -1.5 per cent in 2016-17 (Annex-I). Total liquid foreign exchange reserves stood at $ 21.6 billion by end-March 2017 as against $ 20.9 billion by end-March of last year. This is equal to financing of around five months of imports (Goods & Services) showing comfortable level of reserve position. The actual performance against these targets is reviewed in subsequent paragraphs.

Table-1
Balance of Payments

($ million)

	Actual	July-Mar		% Change
	2015-16	2015-16	2016-17	
Current Account Deficit	-3,394	-2,351	-6,130	
Trade Balance	-18,478	-13,356	-17,782	33.1
Exports	21,972	16,328	16,107	-1.4
Imports	40,450	29,684	33,889	14.2
Services (Net)	-2,964	-2,033	-1,977	-2.8
Income (Net)	-5,335	-3,862	-3,189	-17.4
Current Transfers (Net)	23,383	16,900	16,818	-0.5
Workers' Remittances	19,917	14,388	14,058	-2.3
Financial Account	5,605	3,372	4,806	42.5
of which :				
Direct Investment (net)	1,885	1,407	1,522	8.2
General Government	3,445	1,911	1,000	-47.7
Disbursement	6,159	4,204	4,008	-4.7
Amortization	2,714	2,293	3,008	31.2
Reserves & Related Items	2,652	1,144	-1,614	

Source: *SBP*

Balance of trade

The trade deficit escalated to $ 17.8 billion in July-March 2016-17, significantly higher than last year's $13.4 billion. The Annual Plan 2016-17 envisaged the trade deficit of $ 20.5 billion for the entire year**.** The contraction of exports by 1.4 percent is outpaced by healthy expansion of 14.2 percent in the first 9 months. If the same trend continues during last quarter, then trade imbalance is expected to exceed $ 23 billion.

Box 1
GLOBAL COMPETITIVENESS INDEX (GCI)

- One of the goals of Vision 2025 is to be ranked in the GCI top 50 most competitive countries by 2025.
- For this purpose, The National Productivity Council (NPC) will be revived under the chairmanship of the Prime Minister with relevant experienced professional members.
- Regular capacity and competitiveness audits will be conducted by the NPC and published in annual competitiveness reports.
- The knowledge and capacity for the NPC will be acquired in collaboration with domestic and international leaders in competitiveness.
- Competitiveness Index will be introduced at the provincial level, and Annual Provincial Competitiveness reports will provide implementable recommendations

Exports

Exports have been declining for the third consecutive year in a row due to decline in commodity prices coupled with economic slowdown in export markets. The structural problems like low productivity owing to poor quality of human resource at design and quality stages, an inward looking protective tariff regime and a general lack of competitiveness in the business firms are the major factors in this regards. Despite downturn in textile exports, its share increased from 60 percent last year to 61.4 percent in the period July-March 2016-17. Food group contributed three-fourth of the contraction of exports due to fall in exports of rice.

Box 2
VALUE ADDITION

- Focus on branding by specializing into areas of expertise
- Proper institutions for training the human resource to specialize in production
- Harness the new trends in value addition like venturing into new products
- Move one step ahead into value addition to enhanced value added products.

Table-2
Contribution of Various Groups in Exports

($ Million)

Particulars	July-March		Change (%)	Absolute Increase/ Decrease	Contri-bution to Decrease in Exports	% Contri-bution to Decrease in Exports
	2015-16	2016-17				
A. Food Group	**3,038**	**2,686**	**-11.6**	**-351.9**	**-2.3**	**73.5**
Rice	1,376	1,171	-14.9	-205.5	-1.3	42.9
Meat and Meat Prep.	212	163	-23.1	-49.2	-0.3	10.3
B. Textile Group	**9,362**	**9,279**	**-0.9**	**-83.4**	**-0.5**	**17.4**
Cotton Yarn	989	939	-5.1	-50.4	-0.3	10.5
Cotton Cloth	1,685	1,581	-6.2	-104.1	-0.7	21.7
Knitwear	1,747	1,746	-0.1	-1.3	-	0.3
Bed Wear	1,509	1,586	5.1	77.1	0.5	-16.1
Readymade Garments	1,609	1,704	5.9	95.3	0.6	-19.9
Synthetic	222	167	-24.8	-55.2	-0.4	11.5
C. Petroleum Group	**129**	**139**	**8.0**	**10.3**	**0.1**	**-2.1**
D. Other Manufacturer	**2,387**	**2,274**	**-4.7**	**-112.6**	**-0.7**	**23.5**
Chemicals & Pharma. Pro.	588	621	5.6	33.0	0.2	-6.9
Engineering Goods	134	126	-6.2	-8.3	-0.1	1.7
Cement	248	192	-22.8	-56.5	-0.4	11.8
Leather Products	664	624	-6.0	-40.1	-0.3	8.4
E. All Other Items	**682**	**740**	**8.6**	**58.8**	**0.4**	**-12.3**
Total	**15,597**	**15,119**	**-3.1**	**-478.9**	**-3.1**	**100**
Excluding Textile	**6,235**	**5,840**	**-6.3**	**-395.5**		
Non-Textile	6,235	5,840	-6.3			
Share of Textile	60.0	61.4				
Share of Non-Textile	40.0	38.6				

Source:*FBS*

Exports of goods stood at $ 16.1 billion during July-Mar 2016-17 against $ 16.3 billion in the corresponding period of last year thereby showing a contraction of 1.4 percent. Exports for the full year of 2016-17 are estimated to be around $ 21.6 billion against the target of $ 24.8 billion [Annexure1]. Services exports during July- Mar 2016-17 witnessed an increase of 5.8 percent to US $ 4322 million from $ 4084 million during July-Mar 2015-16.

Imports

Imports increased by 14.2 percent during July-Mar 2016-17 and stood at $33.9 billion. It is expected to reach around $ 45.4 billion by the end of this fiscal year against the Annual Plan (2016-17) target of $ 45.2 billion (Annex-1). The inordinate increase in petroleum imports in quantum terms alone added $2.2 billion to the increase in imports and contributed to 27.6 percent increase in imports. The increase in import bill is mainly due to greater machinery imports which contributed 37.7 percent of absolute increase in imports. The import of power generating machinery contributed to 16.9 percent. Petroleum imports during July-Mar 2016-17 stood at $ 7.8 billion as against $ 6.4 billion recorded during the corresponding period last year showing an increase of $ 1.4 billion. Construction related activities put additional burden on imports to the tune of $ 1.4 billion in the shape of expense on iron and steel imports.

Table-3
Major Contributors to Increase in Imports

($ million)

	Particulars	July-March		% Change	Absolute Increase	% Cont. of absolute incr. in imports
		2015-16	2016-17*			
	Total Imports	***32444.7***	***38503.8***	***18.7***	***6059.2***	***100.0***
A.	**Food Group**	**3939.6**	**4528.7**	**15.0**	**589.1**	**9.7**
	Edible Oil (Soya & Palm Oil)	1391.8	1456.9	4.7	65.1	1.1
B.	**Machinery Group**	**3847.8**	**6133.8**	**59.4**	**2286.0**	**37.7**
	Power Gen. Machine	1341.1	2367.0	76.5	1025.9	16.9
	Office Machine etc	231.6	371.6	60.4	139.9	2.3
C.	**Transport Group**	**512.3**	**480.9**	**-6.1**	**-31.4**	**-0.5**
	Road motor vehicles	1407.2	1811.2	28.7	404.0	6.7
D.	**Petroleum Group**	**6078.8**	**7748.9**	**27.5**	**1670.1**	**27.6**
	Petroleum products	3750.4	4846.0	29.2	1095.6	18.1
	Petroleum crude	1834.4	1840.7	0.3	6.3	0.1
E.	**Textile Group**	**2395.1**	**2375.2**	**-0.8**	**-19.8**	**-0.3**
F.	**Agri Chemicals Group**	**5332.7**	**5548.5**	**4.0**	**215.8**	**3.6**
	Fertilizer	639.7	478.6	-25.2	-161.1	-2.7
G.	**Consumer Duables**	**2727.5**	**3470.0**	**27.2**	**742.6**	**12.3**
	Road motor Vehicles	1407.2	1811.2	28.7	404.0	6.7
H.	**Telecom**	**1046.8**	**1028.8**	**-1.7**	**-18.0**	**-0.3**
	Mobile Phones	573.3	524.4	-8.5	-48.8	-0.8
I.	**Raw Materials**	**3764.7**	**4049.8**	**7.6**	**285.1**	**4.7**
	Plastic material	1314.1	1406.8	7.1	92.7	1.5
	Iron & Steel Scrap	776.9	765.9	-1.4	-11.0	-0.2
J.	**Others**	**1203.0**	**1465.5**	**21.8**	**262.5**	**4.3**
	Non-Oil Import	***26,365.9***	***30,754.9***	***16.6***	***4,389.1***	***72.4***

Source: *PBS*

The rise in quantity imported of selected 10 commodities contributed to almost half of total absolute increase in imports and petroleum quantity alone contributed to more than one-third of the import. An increase of around 18.4 percent in palm oil prices led to 5.8

percent decrease in quantity imported. Domestic crop failure led to increase in quantity imported of pulses by 37.4 percent and thus burden the import bill. Non-oil imports grew at a slower pace than oil imports.

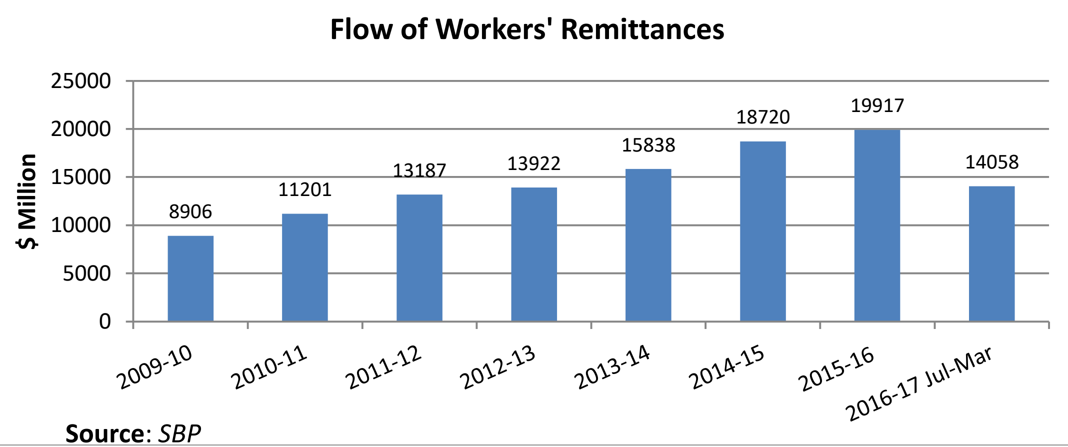
Table-4
Imports in Quantum Terms (July-March)

	2015-16	2016-17	% Change	Impact ($ Million)
Tea (M.KG)	133.3	163.1	22.4	75.1
Palm Oil (000 Tons)	2,048.0	1,928.6	-5.8	-85.7
Pulses (M. MT)	695.9	956.4	37.4	196.6
Petroleum Products (M.MT)	7.0	10.8	54.8	1,714.8
Petroleum Crude (M.Barrels)	31.9	44.1	38.1	507.9
Fertilizer Manf. (000 MT)	1,392.4	1,532.7	10.1	43.8
Plastic material (000 MT)	714.6	834.2	16.7	201.6
Medicinial Products (M.MT)	14.8	14.8	-0.1	-0.8
Iron steel & scrap (M.MT)	2,798.5	2,861.2	2.2	16.8
Iron & steel (M.MT)	2,238.8	2,494	11.4	156.6
Rubber tube & tyres (M.Nos.)	3.5	5.5	56.2	94.7
Synthetic Fibre (000 MT)	181.5	185.2	2	6.8
Total Imports ($ Million)	32,445	38,504	18.7	
Non-Oil Imports ($ Million)	26,366	30,755	16.6	
Non-oil non-food imports ($ Million)	22,426	26,226	16.9	
Net Increase owing to Incr. in Quantity ($Million)				**2,928.3**

Source: *PBS*

Workers' Remittances

Workers' remittances play an important role to sustain current account balance. However, slight decline in remittances, this year, has contributed to the rise in current account deficit. Remittances declined to $ 14.1 billion during July-Mar 2016-17 compared to $ 14.4 billion in the corresponding period of last year (Annexure-1) registering a decrease of 2.3 per cent. The annual plan projection for remittances was $20.2 billion. Remittances from Saudi Arabia witnessed a decrease of 6.2 percent. The trend in worker's remittance is reflected in Figure below:



Source: *SBP*

Current Account Balance: The current account deficit was projected at $ 4.5 billion (1.5 per cent of GDP) in the Annual Plan 2016-17 against a deficit of $ 3.4 billion (1.2 per cent of GDP) recorded in 2015-16 (Annexure-1). With expected trade deficit of $ 23.8 billion and remittances of $19.9 billion during 2016-17, the current account in 2016-17 is estimated to be in deficit by $ 8.3 billion (Annexure-1).

Capital & Financial Account: Inflows in the financial account increased to $ 4.8 billion during Jul-Mar 2016-17 as against $ 3.4 billion recorded in the corresponding period of last year (Annexure-1). The amortization payments increased to $ 3 billion from $ 2.3 billion during Jul-Mar 2015-16. Net inflow of foreign direct investment has increased from $1.4 billion to $ 1.5 billion in the same period. The portfolio investment was recorded at $ -408 million compared to inflow of $ 659 million last year (Annexure-1).

Reserves & Related Items: The change in reserves and related items were recorded at $ -1.6 billion in July-Mar 2016-17 compared to $ 1.1 billion recorded in the comparable period of 2015-16 (Annexure-1).

Exchange rate

The average monthly exchange rate against US dollar during March 2017 stood at Rs. 104.74 against Rs. 104.65 in the corresponding period of previous year. As far as Real Effective Exchange Rate (REER) is concerned it reached to 125.9 with base 2010 = 100. However, compared to June, 2016 (120.6), the REER showed an appreciation of 4.4 per cent.

Outlook for 2017-18

Trade Account: Exports in 2017-18 are projected to grow by 6.8 per cent to $ 23.1 billion from $ 21.6 billion estimated for 2016-17. Imports during 2017-18 are projected to increase by 7.6 per cent to $ 48.8 billion from $ 45.4 billion estimated for 2016-17. Hence, the trade account is projected to be in deficit by $ 25.7 billion in 2017-18 from $ 23.8 billion estimated for 2016-17. (Annexure-1)

Current Account Balance: The current account is targeted to be in deficit by $ 8.9 billion in 2017-18 (2.6 per cent of GDP) as against a deficit of $ 8.3 billion (2.7 per cent of GDP) estimated for 2016-17 (Annexure-1).

Capital & Financial Account: Gross aid disbursements during 2017-18 are expected to remain at the level of $ 9.5 billion against $ 8.2 billion estimated for 2016-17 while amortization has been projected at $ 5.8 billion during 2017-18. Net inflow of foreign direct investment in Pakistan during the 2017-18 has been projected at $ 4.2 billion.

Overall Balance: Analyzing the trend in the trade deficit, the overall balance is likely to result in accumulation of reserves by around $ 1384 million in 2017-18. Details are given in Annex-I.

Box 3: Rs. 180 BILLION EXPORT PACKAGE

- The implementation of the package is from January 2017 to June 2018
- Implementation consists of abolishing customs duty and sales tax on import of cotton, man-made fiber other than polyester and sales tax on import of textile machinery.
- As a result of these measures, the government expects gain of $2 to $3 billion in exports by June 2018
- Under this package the exporters will be liable to increase exports by five percent from January to June 2017 and then by further 10 percent in financial year 2017-18.
- Part of the deal is that there will be no condition on getting duty drawback in the first six months (January to June) of the scheme. However, exporters will have to record 10 per cent growth in exports during the next fiscal year 2017-18 as compared to the ongoing financial year
- Under the package, the new duty drawback rates for textile garments will be 7 per cent; textile made-ups 6 per cent; processed fabric 5 per cent ; yarn and grey fabric 4 per cent; while sports goods, leather and footwear will be taxed at 7 per cent and carpets and tents 5 per cent

Programmes

The government is providing uninterrupted power supply to the industries in the country. Earlier, the government had reduced the power tariff for the industries. The government has offered a historic package to enhance exports, which would cost Rs180 billion and will span over 18 months. This package would generate employment opportunities and revive industry.

Box 4
Strategic Trade Policy Framework 2015-18

Targets

STPF 2015-18 aims to achieve following targets by June 30, 2018:

- Enhancement of annual exports to US$ 35 Billion
- Improve Export Competitiveness
- Transition from ‘factor-driven’ economy to ‘efficiency-driven’ and ‘innovation-driven’ economy
- Increase share in regional trade

Key Enablers

- Competitiveness (quality infrastructure, labor productivity, access to utilities, and level of technological development)
- Compliance to standards (convergence of local & international standards, protection of intellectual property, and effective and efficient disputes resolution mechanism)
- Policy environment (monetary policy, tariff & tax regime, and synergic industrial & investment policies)
- Market access (multilateral, regional, and bilateral)

Annex-I

Balance of Payments

(US$ million)

ITEM	2015-16	July-Mar		2016-17		2017-18
		2015-16	2016-17	Proj.	Estimate	proj.
Current Account Balance	**-3394**	**-2351**	**-6130**	**-4530**	**-8349**	**-8991**
Balance on Goods	**-18478**	**-13356**	**-17782**	**-20460**	**-23759**	**-25731**
Exports f.o.b	21972	16328	16107	24750	21626	23097
Imports f.o.b	40450	29684	33889	45210	45385	48829
Services Balance	-2964	-2033	-1977	-2585	-2918	-2399
Balance on Primary Income	-5335	-3862	-3189	-4833	-4355	-4427
Balance on Goods, Services & Primary Income	**-26777**	**-19251**	**-22948**	**-27879**	**-31032**	**-32557**
Balance on Secondary Income	23383	16900	16818	23349	22684	23566
Workers Remittances	19917	14388	14058	20203	19955	20673
Capital Inflows	**273**	**213**	**260**	**399**	**347**	**371**
Financial Inflows	**5605**	**3372**	**4806**	**5569**	**7551**	**10003**
Direct Investment (Net)	1885	1407	1522	4550	2575	4183
Portfolio Investment (Net)	-429	-408	659	100	600	1080
Other Investment	4149	2373	2625	919	4376	4740
General Government	3445	1911	1000	875	2760	3684
Disbursements	6159	4204	4008	5632	8225	9484
Amortization	2714	2293	3008	4757	5465	5800
Others	704	462	1625	44	2167	2275
Errors & Omissions	**168**	**-90**	**-550**	**0**	**0**	**0**
Reserves & Related Items	**2652**	**1144**	**-1614**	**1438**	**-451**	**1384**
Memorandum Items						
Current Account Balance (% of GDP)	-1.2	-1.1	-2.6	-1.5	-2.7	-2.6
Exports f.o.b (growth rate %)	-8.8	-9.4	-1.4	10.8	-1.6	6.8
Imports f.o.b (growth rate %)	-2.0	-4.9	14.2	14.8	12.2	7.6

Source: *SBP & Planning Commission Estimates*

Annex-II

Major exports

($ million)

Items	2015-16	July-Mar		2016-17	2017-18
	Actual	2015-16	2016-17	Estimate	Proj.
A. Food Group	**3722**	**2758**	**2572**	**3504**	**3652**
Rice	1853	1333	1151	1585	1660
Other food items	1870	1425	1421	1919	1992
B. Textile Group	**12756**	**9601**	**9340**	**12533**	**13165**
Cotton Yarn	1266	1026	865	1203	1242
Cotton cloth	2332	1739	1621	2162	2238
Knitwear	2309	1746	1740	2350	2465
Bedwear	2126	1574	1600	2134	2230
Ready-made Garments	2156	1594	1702	2269	2491
Other Textiles	2567	1922	1812	2416	2500
C. Other Manufactures	**3805**	**2815**	**2658**	**3670**	**3913**
Sports Goods	539	392	402	536	558
Leather Tanned & Manufatures	907	683	633	874	911
Chemicals And Pharm. Products	1052	762	785	1077	1147
Cement	347	268	200	297	320
Others	960	710	638	888	977
D. All Others	**1689**	**1154**	**1537**	**2049**	**2368**
Exports (fob)	**21972**	**16328**	**16107**	**21757**	**23097**

Source: *SBP & Planning Commission estimates*

Annex-III

Major imports

($ million)

Item	2015-16	July-Mar		2016-17	2017-18
	Actual	2015-16	2016-17	Estimate	Proj.
A. Food Group	**4600**	**3367**	**3993**	**5324**	**5729**
Tea	490	380	404	538	573
Palm Oil	1600	1187	1323	1764	1892
Others	2510	1800	2267	3022	3264
B. Machinery Group	**6262**	**4602**	**5275**	**7054**	**7505**
Power Generating Machinery	1005	792	884	1179	1268
Electrical Machinery & Apparatus	1251	958	953	1270	1302
Telecom	1201	938	723	964	979
Other Machinery	2806	1914	2715	3640	3957
C.Transport Group	**1861**	**1332**	**1852**	**2509**	**2685**
Road Motor Vehicles Build Units CKD/SKD	1264	930	1292	1743	1856
Others	598	402	560	766	829
D. Petroleum Group	**8360**	**6398**	**7768**	**10378**	**11150**
Petroleum Products	5098	3860	4705	6273	6675
Petroleum Crude	2570	2084	2067	2776	2984
Others	692	454	996	1328	1491
E. Agri. & other Chemi. Gr.	**6715**	**5017**	**5178**	**6934**	**7460**
Fertilizer Manufactured	734	657	404	538	556
Plastic Materials	1791	1308	1352	1803	1879
Others	4189	3051	3422	4593	5025
F. Metal Group	**3643**	**2543**	**2572**	**3514**	**3653**
Iron and Steel Scrap	837	578	633	929	1015
Others	2807	1965	1939	2586	2638
G. All Others	**9008**	**6426**	**7250**	**9757**	**10647**
Imports (fob)	**40450**	**29684**	**33889**	**45470**	**48829**

Source: *SBP & Planning Commission estimates*