Chapter 8

Trade and Payments

The recovery in the advanced economies during 2017, like US, Germany, Japan and Korea led to increased demand for exports of emerging countries including Pakistan. Moreover, the OECD an economies also witnessed higher GDP growth during 2017. Furthermore, the recovery in global commodity prices pushed up export prices of non- basmati rice, manufactured products such as cotton yarn, hosiery, bed wear, readymade garments and leather and of petroleum products.

The recovery in the global trade during 2017 is likely to continue in 2018, based on strong export orders, strong air freight and container shipping and recovery in global oil prices. During the year, world merchandise trade grew at its highest rate on account of stronger import demand in East Asia and increased domestic demand along with accommodative policy measures. The recovery in international trade was followed by a rise in world industrial output and an increase in the Global Manufacturing Purchasing Managers' Index to a six-year high according to UN world economic situation and prospects.

China would change the global trade perspective. In particular, a decline in demand for commodities in China could adversely affect commodity exporters, especially exporters of metals. Several ongoing structural shifts remain constraints to trade growth in the medium term.

Exports

During last few years, Pakistan's exports recorded a negative growth.The main reasons for declining of exports was attributed to a global slowdown in demand but now the global economy is on the track of recovery. Pakistan's exports are also on the increasing trend and the negative growth is bottoming out as during the FY2017 the exports declined by only 1.76 percent compared to negative growth of 12.2 percent a year early. Exports posted a double digit growth after a long period of seven years.

The exports target for FY2018 was set at US$ 23.09 billion.Exports during July-February FY2018 reached to US$ 14.8 billion as compared to US$ 13.3 billion in July- February FY2017, registered a remarkeable growth of 11.6 percent.

The rising exports can be attributed to a number of initiatives, announced by the government like export package of Rs 180 billion, improvement in the energy supply (import of LNG) and significant recovery in the global commodity prices.

The State Bank of Pakistan gradually reduced its mark-up rate on Export Refinancing Facility (EFR) from 9.0 percent in 2010 gradually reduced to 3.0 percent in July 2016 till date. Similarly Long Term Financing Facility (LTFF) for 3-10 years duration from around 11.4 percent gradually reduced to 6.0 percent in July 2015 till date, to allow export sector industries to make investments on competitive basis.

The above mentioned measures are announced in general and in particular for textile sector are duty free import of textile machinery, uninterrupted supply of electricity and gas, introduction of Technology Up-gradation Fund (TUF) Scheme 2016-19 for the textile sector, five export oriented sectors - including textile, leather, sports goods, surgical goods and carpets - as part of zero rated sales tax regime.

The Prime Minister's Package of Incentives for Exporters in order to provide duty drawback of taxes collected from garments, home textiles, processed fabric, greige fabric and yarn manufacturing cum-exporter units and "Duty Drawback of Taxes Order 2017-18".

The duty drawbacks shall be allowed for exports goods declaration (GDs) filed on or after July 1, 2017 to 30th June 2018 as; 50 percent of the rate of drawback shall be provided without condition of increment; remaining 50 percent of the rate of drawback shall be provided, if the exporter achieves an increase of 10 percent or more in exports during FY 2018 as compared to the base year. An additional 2 percent drawback shall be allowed for exports to non-traditional markets i.e Africa, Latin America, non-EU European countries, Commonwealth of Independent States and Oceania.

Merchandise Exports

During July – February FY2018, the exports reached to US$14.8 billion dollars as compared to US$ 13.3 billion of the same period last year, which shows an impressive growth of 11.62 percent as compared to the decline of 4.01 percent same period last year.

Broad categories of exports suggest that all groups including food group, textile group, petroleum group & coal and other manufactured goods performed well during the current year whereas Exports of food group posted a positive growth of 21.7 percent; Textile Manufactures export increased by 7.2 percent, petroleum group exports registered a growth of 131.6 percent and other manufactures group posted an impressive growth of 10.4 percent during comparable period last year.

Exports of food group accounting 19.1 percent in total exports posted a growth of 21.7 percent as compared to same period last year. Within food group, export of rice alone accounting 44.4 percent, registered an impressive growth of 22.1 percent. This can be attributed to various factors, particularly exporters adopted enhanced processing quality techniques, better marketing strategies and explored new markets. Therefore, Pakistan's rice exports to the Middle East, Australia, Canada and Europe increased significantly.

Pakistan would also benefit from the price competitiveness against its competitors, Thailand, Vietnam etc. As Indian rice has lost its market in European countries due to excessive pesticide residue, Pakistani rice exporters has the opportunity to capture EU market. A remarkable increase of non- basmati rice exports came from Bangladesh, as floods in Bangladesh has damaged local crops and led domestic prices to reach record high.

The other important component of food group which registered impressive growth includes oilseeds, nuts & kernals and vegetables, tobacco, fish and fish preparations and sugar. Due to surplus production of sugar, the government has lifted the export ban and announced a subsidy which led to US $ 278.8 million of sugar exports. However, exports of fruits, meat and meat preparations, spices and wheat witnessed a decline during first eight months of current financial year. (Table: 8.1)

Table 8.1: Structure of Exports ($ Million)

	Particulars	July-February Values in Dollars			July-February Quantity		
		2016-17	2017-18 P	% Change in Values	2016-17	2017-18 P	% Change in Quantity
	Total	13,302.9	14,848.8	11.6			
A.	**Food Group**	2,334.6	2,842.0	21.7			
	Rice	1,033.2	1,261.9	22.1	2,395,029	2,669,935	11.48
	Basmati	246.3	272.4	10.6	256,848	258,568	0.67
	Other Rice	786.9	989.5	25.7	2,138,181	2,411,367	12.78
	Sugar	8.8	278.9	3078.5	15,908	761,254	4685.35
	Fish & Fish Preparation	239.8	264.2	10.2	89,032	108,262	21.60
	Fruits	301.4	294.5	-2.3	516,901	438,211	-15.22
	Vegetables	98.5	137.7	39.8	363,506	418,775	15.20
	Spices	51.7	50.1	-3.1	14,246	13,967	-1.96

Table 8.1: Structure of Exports ($ Million)

	Particulars	July-February Values in Dollars			July-February Quantity		
		2016-17	2017-18 P	% Change in Values	2016-17	2017-18 P	% Change in Quantity
	Meat & Meat Preparation	140.8	127.6	-9.3	40,769	35,319	-13.37
	Other Food items	421.9	362.6	-14.0			
B.	**Textile Manufactures**	8,205.2	8,793.7	7.2			
	Cotton Yarn	844.0	859.7	1.9	302,652	332,325	9.80
	Cotton Cloth	1,425.0	1,425.6	0.0	1,391,436	1,380,282	-0.80
	Knitwear	1,550.1	1,756.3	13.3	68,563	70,406	2.69
	Bed wear	1,413.5	1,477.2	4.5	236,011	240,896	2.07
	Towels	520.9	519.2	-0.3	124,900	135,128	8.19
	Readymade Garments	1,499.5	1,695.6	13.1	22,708	25,621	12.83
	Made-up articles	421.8	452.7	7.3			
	Other Textile Manufactures	266.0	274.4	3.2			
C.	**Petroleum Group**	114.4	264.9	131.6			
	Petroleum Crude	38.0	120.6	216.9	107,781	274,929	155.08
	Petroleum Products	47.6	105.0	120.6	92,449	169,189	83.01
	Petroleum Top Naphtha	28.7	39.3	36.8	80,967	90,699	12.02
D.	**Other Manufactures**	2,010.1	2,218.9	10.4			
	Carpets, Rugs & Mats	55.8	50.7	-9.2	1,258	1,179	-6.28
	Sports Goods	201.8	202.8	0.5			
	Leather Tanned	221.4	212.3	-4.1	13,093	19,048	45.48
	Leather Manufactures	338.0	349.5	3.4			
	Surgical Goods. & Med. Inst	221.8	248.8	12.2			
	Chemical & Pharma. Pro.	528.4	697.0	31.9			
	Engineering Goods	110.8	125.6	13.3			
	Cement	180.1	149.7	-16.9	3,442,210	2,982,415	-13.36
	All Other Manufactures	151.9	182.5	20.1			
E.	**All Other items**	638.6	729.3	14.2			

Source : PBS

Export of textile manufactures, which account for around 60 percent of total exports, registered a growth of 7.2 percent during first eight months of current financial year. All the sub-groups in this category witnessed a positive growth with the exception of cotton cloth, cotton carded and tents, canvas & tarpulin during current financial year. Exports of value added textile like bed wear, knit wear and readymade garments, towel and made-up articles (excluding towels) was up substantially during this period due to the growth in quantum terms.

Exports of textile items like knitwear which comprises 11.8 percent of total exports and 19.9 percent of textile group increased in both quantity and value by 2.7 and 13.3 percent, respectively. Readymade garments with share of 11.4 percent in exports and 19.3 percent share in textile group increased in quantity by 12.8 percent and in value by 13.1 percent.

Cotton cloth which represents 9.6 percent of share in exports and 16.2 percent in textile group, decreased in quantity by 0.8 percent and its value meagerly by 0.04 percent, respectively. One of the reasons for the drop was sluggish Chinese demand for cotton cloth and yarn.

Bed wear with a handsome share of 9.9 percent in exports and 16.8 percent in textile group, increased in both quantity and value by 2.1 percent and 4.5 percent, respectively. Cotton yarn has 5.8 percent share in total exports and 9.8 percent in textile group, increased in both quantity and value by 9.8 percent and 1.9 percent, respectively. Towels having share of

3.5 percent in total exports and 5.9 percent share in textile group, increased in quantity by 8.2 percent but in value decreased by 0.3 percent. Raw cotton having a share of 0.4 percent in total exports and 0.6 percent in textile group, increased both in quantity and value by 43.5 percent and 38.0 percent, respectively.

Petroleum group with a negligible share of 1.8 percent registered a growth of 131.6 percent. Within Petroleum group, export of petroleum crude posted a growth of 216.9 percent in value and 155.0 percent in quantity .

Exports of other manufactures group accounting for 14.9 percent witnessed a positive growth of 10.4 percent in the current fiscal year (Jul-Feb period).

Export of carpets, rugs and mats registered a negative growth in value by 9.2 percent whereas its exports quantity declined by 6.3 percent during July- February FY2018 compared to the same period last year suggesting that decline in international prices played the major role in its exports. Further, Pakistani exporter has lost the market share to Turkey as the recent imposition of 42 percent additional custom duty on Pakistan’s hand knitted carpet. Further in FTA concession list, handmade carpets were excluded and there is no demand for machine made carpets. Shortage of skilled labor force and failure to cope with the changing trends in world markets has affected the carpets demand and exports.

A decline of around 4.1 percent is witnessed in Leather Tanned in value but it increased to 45.5 percent in quantity. On the other hand, surgical goods and medical instruments posted a positive growth of 12.2 percent in value during July – February FY2018 over the same period last year. Sports goods posted a slight increase of 0.5 percent in value during July- February FY2018 against the same period last year. Footballs with a share of 0.7 percent in total export increased both in quantity and value by 15.8 percent and 7.8 percent, respectively, on account of an innovation driven football making company which has maintained the largest global presence with renowned global brands, organizations and Pakistani football will be used in FIFA World Cup 2018.

Exports of Footwear registered a positive growth of 8.4 percent in value, however, its quantity declined by 0.4 percent during July-February FY2018 comparable same period last year. Canvas footwear and other footwear registered a negative growth of 59.2 percent and 17.9 percent in value and 53.1 percent and 18.4 percent in quantity during July- February FY2018 against the same period last year.

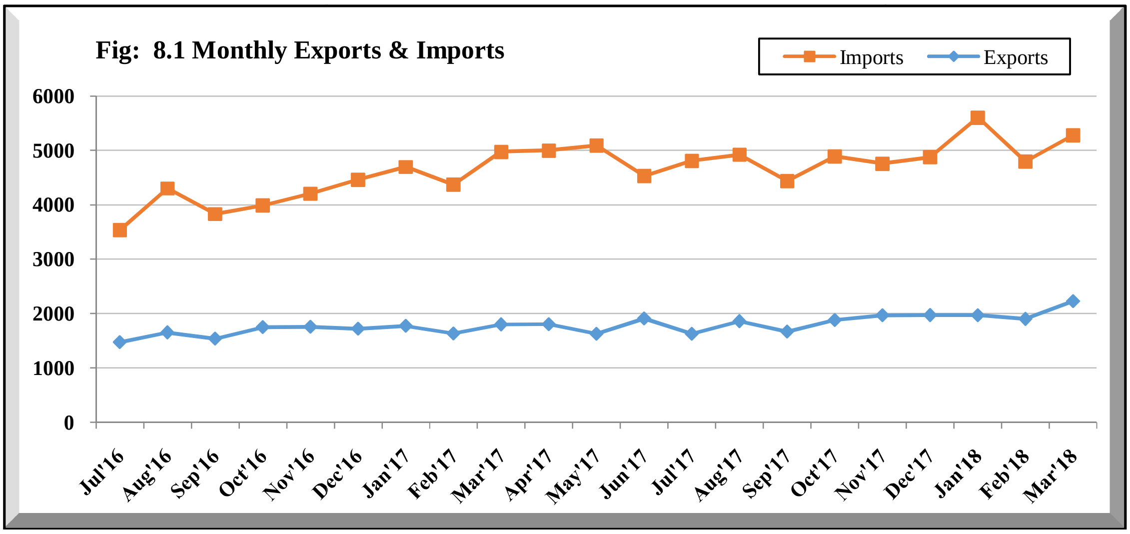
The other non-traditional items like plastic material witnessed an increase of 14.8 percent in value and 17.9 percent in quantity during July- February FY2018 against the same period last year.

Under other items, the Gems during the period July- February FY2018 increased both in value and quantity by 19.8 percent and 100 percent, respectively. The cement although witnessed a decline in both quantity and value by 13.4 percent and 16.9 percent during the period under review. Guar and Guar products improved both in quantity and value by 19.3 percent and 42.0 percent during July- February FY2018.

Trends in Monthly Exports and Imports

The monthly average of exports remains unbeaten and records a highest growth of 24.4 percent in the month of March 2018. The monthly exports for the period July-March, FY2018 is on the growing trajectory as compared to the corresponding months of last year, averaging $ 1898 million per month as against an average of $ 1677 million last year. During July-March FY2018 the exports reached to US $ 17080 million as against US $ 15097 million, registered a growth of 13.1 percent.

The monthly imports during July-March FY2018 witnessed rising trend. Import averaged US $ 4931 million per month. On average the monthly import increased by US $ 669 million per month. During July-March FY2018 import reached to US$44379 million as against US $ 38369 million, register a growth of 15.7 percent



Concentration of Exports

Pakistan's exports are highly concentrated in few items like cotton & cotton manufactures, leather, rice, and few more items. The first three categories of exports accounts for 70.8 percent of total exports during July-January FY2018 with cotton & cotton manufacture alone contributing 58.7 percent. Traditionally, the contribution of these three categories was 71.8 percent during the same period last year, and 68.7 percent during FY 2016.The bifurcation of these items in Table 8.2 shows that exports in these few items are the major factor for lower export earnings.

Table 8.2 : Pakistan's Major Exports (Percentage Share)

Commodity	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	July-January	
							2016-17	2017-18 P
Cotton Manufactures	49.9	51.7	53.1	54.5	55	59.4	60.3	57.9
Leather**	4.4	4.7	5.1	4.8	4.9	4.5	8.2	4.3
Rice	8.7	8.4	7.6	8.5	8.8	7.9	7.5	8.3
Sub-Total of three Items	**63**	**64.8**	**65.8**	**67.8**	**68.7**	**71.8**	**76.0**	**70.5**
Other items	37.3	35.2	34.2	32.2	31.3	28.2	24.0	29.5
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

P : Provisional,
**** Leather & Leather Manufactured**
Source: Pakistan Bureau of Statistics

Direction of Exports

Although Pakistan trades with a large number of countries, its exports are highly concentrated in few countries. About 55 percent of Pakistan's exports go to ten countries namely, USA, China, UAE, Afghanistan, UK Germany, France, Bangladesh, Italy and Spain. Furthermore, the USA has largest share in export by 16 percent followed by European countries 11 percent, in total exports. The table suggests that our exports to China has dropped from 9 percent in FY 2015 to 7 percent in FY 2018. The share of exports to Afghanistan also witnessed a decline in recent years from 8 percent in 2016-17 to 7 percent during current year, whereas, the share of exports to UAE remained stagnant. The share of exports to EU countries like France, Italy, Spain, etc. also remained relatively stagnant. Major export markets of Pakistan and their share is given in Table: 8.3

Table 8.3 : Major Exports Markets (Rs billion & Percentage share)

Country	2014-15		2015-16		2016-17		July-January			
							2016-17		2017-18 P	
	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share
USA	374.4	16	364.8	17	361.1	17	205.3	17	222.5	16
CHINA	219.9	9	174.0	8	153.8	7	96.7	8	96.3	7
AFGHANISTAN	198.8	8	149.9	7	133.1	6	79.0	6	95.4	7
UNITED KINGDOM	160.2	7	164.7	8	163.1	8	93.4	8	102.7	7
GERMANY	119.0	5	118.0	5	125.1	6	71.7	6	82.2	6
U.A.E	102.9	4	85.5	4	83.0	4	43.2	4	50.3	4
BANGLADESH	70.7	3	72.3	3	65.4	3	38.0	3	41.9	3
ITALY	67.6	3	67.7	3	68.6	3	38.1	3	44.2	3
SPAIN	81.7	3	84.3	4	85.5	4	49.8	4	61.7	4
FRANCE	38.2	2	36.0	2	38.8	2	22.0	2	24.5	2
All Other	**964.1**	40	**849.6**	39	**860.7**	40	**484.2**	40	**576.2**	41
Total	**2,397.5**	100	**2,166.8**	100	**2,138.2**	100	**1,221.4**	100	**1,397.9**	100

P : Provisional

Source: Pakistan Bureau of Statistics

Box-1 :Evaluation of Pakistan's exports to European Union (EU) under the GSP Plus regime Impact of GSP Plus on Pakistan's exports to EU

As a result of duty free access granted to Pakistan by EU under its GSP+ Scheme, Pakistan's exports to EU have increased by 47.25% in 2017 over 2013. Pakistan's exports to EU have increased from 4.53 billion Euros in 2013 to 6.67 billion Euros in 2017. Pakistan's exports of textile products have increased by 66.6 % in value terms during the same period.

Impact of GSP+ on Pakistan's Exports to EU (Billion Euros)

Partner/Period	2013	2014	2015	2016	2017	Impact over 2013 (%)	Trade Arrangement
Pakistan	4.53	5.51	6.05	6.28	6.67	**47.25**	GSP+ (unilateral duty free)

Source: Eurostat

The duty free access is helping Pakistani products to compete with products originating from Bangladesh, Vietnam and Turkey and many other countries. As these countries are benefitting from EU's Customs Union with Turkey, FTA with Vietnam and Bangladesh being an LDC is a beneficiary of Everything But Arms (EBA) arrangement of the European Union.

Textiles sector has been a major beneficiary of EU's GSP+ scheme. Pakistan's exports of textile products have increased by 66.6 % in value terms in 2017 over 2013. Pakistan's exports also registered increase in terms of quantity during the same period. The following table gives a breakdown of the sector wise exports from within the textiles.

Sector	2013	2014	2015	2016	2017	Impact of GSP+ (%)
Textile Garments and Hosiery	1,398.6	1,830.5	2,281.6	2,467.3	2,685.2	92.00
Home Textiles	980.0	1,270.9	1,456.3	1,564.1	1,682.4	71.66
Cotton & Intermediary Goods of Textiles	738.8	765.1	792.4	805.1	840.8	13.80
Carpets	30.3	31.6	37.2	37.9	35.6	17.34
Grand Total	3,147.7	3,898.0	4,567.4	4,874.5	5,243.9	66.60

Source: Eurostat

European Parliament's Committee on International Trade (INTA's) 2nd Biennial Review of EU's GSP+ Scheme

Meetings of International Trade Committee (INTA) and European Council were held in Brussels at the European Parliament on 20th and 21st Feb, 2018 respectively to discuss the 2nd Biennial Assessment Report of GSP+. The parliament expressed satisfaction on the progress achieved by Pakistan in enacting new laws and developing new institutions for implementation of 27 core conventions of GSP+ specially the National Action Plan for Human Rights. The parliament hoped that Pakistan would continue to engage with the EU and ensure to bridge implementation gaps during the next two years of reporting on GSP+. The Committee on International Trade also agreed to deliberate upon possibility of up-scaling relationship with Pakistan from a beneficiary of GSP+ Scheme to an FTA partner in future.

Source: Ministry of Commerce

Pakistan and United States Trade:

United States of America (USA) is a major destination for Pakistan's exports. The volume of trade for the year 2016-17 between Pakistan and United States is US $ 6,007.68 million with positive trade balance of US $ 891.00 million in favor of Pakistan.

The U.S. Generalized System of Preferences (GSP), a program designed to promote economic growth in the developing world, provides preferential duty-free treatment for over 3,500 products from 128 designated beneficiary countries and territories. However, for the 44 Least Developed Countries (LDCs), enhanced market access is provided by allowing an additional 1500 tariff lines for duty free treatment. On 1st July 2017, the US Government has included 134 tariff lines into GSP scheme like travel bags, travel goods related to {HS 42 (two digits)} export interest to Pakistan.

Pakistan's Multilateral Trade Engagements

Pakistan is focusing on reducing trade transaction costs that would have positive bearing upon export enhancement. Thus, it is proactively implementing WTO's Trade Facilitation Agreement that is expected to reduce trade costs by an average of 14.3 percent after its full implementation. Trade Facilitation Agreement has offered both public and private sector stakeholders in the country an opportunity to revisit and revamp trade procedures to induce efficiency and cost reduction in the trade operations. It is in line with the present government's vision for domestic reforms, facilitating businesses and international trade. This would pave the way for diversification of exports and would include new products/services and partners, increased involvement in global value chains, expanded participation of small and medium-sized enterprises in international trade, increased foreign direct investment as well as greater revenue collection and transparency in trade transactions.

Pakistan has entered the advance stage of operationalization of TIR (Transports Internationaux Routiers, International Road Transport) Convention which would translate Pakistan's strategic location into trade and economic gains. Containers originating from Pakistan would have time and cost effective access to their final destinations. Thus offering enhanced opportunities to our businessmen to flourish and expand their business operations in the region

Digital Trade

Cognizant of the global developments in digital trade, Ministry of Commerce is finalizing a Policy Framework for development of e-Commerce/digital trade in the country. The Framework is being developed to deal with Regulatory regime, Payment Infrastructure, Logistics and Taxation issues related to E-Commerce. Digital platforms have changed the economics of doing business across borders by reducing costs of international transactions enabling Micro, Small and Medium Enterprises (MSMEs) to connect with customers and suppliers around the world. Pakistan needs digitalization of its marketplace for maintaining its growth and upgrading the production processes and selling practices. E-Commerce holds the potential to unlock accelerated growth, conducive business, regulatory and legal environment in Pakistan. E-Commerce is not only a growing global industry, it is also one of the important pillars on which an increasing share of future business, financial and trading transactions will depend and there is a dire need to develop it in Pakistan. Global B2C sales through E-commerce have been US$ 2.2 trillion and they are expected to be doubled by 2021.

E-Commerce will facilitate Pakistan's integration in the regional and global value chains which are the new drivers of global trade. E-Commerce is expected to expand the job market especially for the youth who are well versed with internet and mobile applications. The vibrant regulatory reforms in the arena of E-Commerce will enable the country to improve its participation in the negotiations at the bilateral and multilateral forums.

Box-2: Initiatives in The Pipelines

Pakistan's exports remained under stress in 2016-17 due to disconnect between Domestic Competiveness and International Trade Competiveness. The Domestic Commerce Wing of Commerce Division is working to improve regulatory and policy frameworks of different provinces and administrative units. For this purpose the Domestic Commerce Wing is preparing State of Domestic Commerce provincial reports. The wing has helped the provincial governments in drafting the provincial Strategies for improving business environment. After approval of these strategies by the competent authorities in provinces and administrative units, a policy framework of domestic commerce will be developed. The commerce division through these initiatives is working towards creating an enabling environment for "Enterprise Development".

1. The services sector plays an important role in Pakistan's economy, contributing around 60 percent to the GDP, creating employment opportunities, and providing crucial inputs for the rest of the economy. The sector witnessed a robust growth of 6.43 percent during 2017-18 as compared to over all GDP growth of 5.79 percent. Also, Services represent the fastest growing sector of the global economy, accounting for two thirds of global outputs, one third of global employment and nearly 20 percent of global trade. Pakistan's share in the global export of services is 0.07 percent which is considerably lower than country's potential warrants

2. Keeping in view the growing significance of the Services sector, Commerce Division took certain initiatives, which include the establishment of Services Trade Development Council (STDC) and Trade in Services Wing. The aim is to initiate and lead the services sector reforms aiming domestic liberalization and facilitation for enhanced exports.

3. Pak-China Trade in Services Negotiation: The 9th meeting of 2ndPhase negotiations of China-Pakistan FTA (CPFTA) was held in Beijing on 6-7thFebruary, 2018. Both countries agreed that Trade in Services negotiation be excluded in the 2ndPhase CPFTA outcome in order to continue discussion on Trade in Services separately after the conclusion of 2ndPhase CPFTA (Trade in Goods).

4. Draft E-Commerce Policy

With the advent of modern technology, the significance of Electronic Commerce has increased manifold. The inherent complexities of e-commerce has prompted the government to put in place appropriate policy/regulations to create a conducive environment for foreign investment, increase competitiveness of domestic business entities, and at the same time safeguard consumer interests. Following the conclusion of long drawn out consultation process with the stakeholders spanning over two years, Commerce Division is now finalizing the draft *"Policy Framework for e-commerce"*. The draft policy framework will be approved by the Prime Minister.

Source : Ministry Of Commerce

Box-3: Free Trade Agreement (FTA)

Pak-China FTA

China-Pakistan Free Trade Agreement (CPFTA) on trade in goods was signed on 24th November, 2006 and implemented on 1st July, 2007. FTA on Trade in Services was signed on 21st February, 2009 and is operational from 10th October, 2009. The FTA covers more than 7000 tariff lines at the 8 digit level of HS Code. Both sides are currently negotiating Phase-II of the FTA, for which 8th and 9th rounds were held in 2017-18.

The Sino-Pakistan volume of trade, which was around US$ 4 billion in the year 2006-07, reached an all-time high of US$ 15.60 billion in 2016-17 showing an increase of 290 percent. Pakistan's exports have jumped to US$ 1.46 billion in 2016-17 from US$ 575 million in 2006-07. Correspondingly, China's exports to Pakistan have increased to US$ 14.13 billion in 2016-17 from US$ 3.5 billion in 2006-07.

Pak-Malaysia FTA

The Comprehensive Free Trade Agreement (FTA) for Closer Economic Partnership between Pakistan and Malaysia was signed on 08-11-2007 at Kuala Lumpur Malaysia. It is operational from 1st January 2008. Pakistan exports to Malaysia have increased from US$ 81 million in FY2007 to US$ 139.7 in FY2017 and registered a growth of 72.5 percent as a result of FTA.

Pak-Thailand FTA

Pakistan is Thailand's second largest trade partner in South Asia and there is tremendous potential to increase bilateral trade. During the 3rd Session of Pak-Thai JTC, held on 12-13th August, 2015, it was agreed by both sides to enter into Free Trade Agreement. The negotiations on FTA were started in 2015 and so far 9 rounds have been held. At present, both sides are engaged in negotiation on tariff concessions, Pakistan's exports to Thailand have increased by 45.6 percent from US$ 95 million in FY2011 to US$ 138 million in FY2017.

Pakistan-Sri Lanka FTA

Pakistan-Sri Lanka FTA became operational from 12th June 2005. The Sixth Secretary Commerce Level Technical Talks between Pakistan and Sri Lanka were held on 6th January, 2016. During this meeting, talks were held on broadening the scope of FTA by inclusion of chapters on services and investments. Accordingly, Pakistan side presented draft chapters on services and investments to Sri Lankan side. Sri Lankan response is awaited. The second meeting of the Pak-Sri Lanka Joint Working Group on Trade will be held in the first quarter of 2018. The volume of bilateral trade between Pakistan and Sri Lanka during the last three (03) years has increased from US $ 324.9 million in FY2015 to US $ 354.7 million in FY2017.

Agreement on South Asian Free Trade Area (SAFTA)

The Agreement on South Asian Free Trade Area (SAFTA) was signed during the 12th SAARC Summit held at Islamabad on 6th January, 2004. The first tariff reduction under the Trade Liberalization Programme (TLP) was enforced w.e.f. 1st July 2006.

Pakistan hosted Third SAARC – ADB Special Meeting on Regional Economic Integration in April, 2017 in Islamabad wherein the implementation of the previous decisions in identified priority areas for moving towards South Asian Economic Union was discussed.

Impact of TLP on Pakistan's Trade with SAARC Region As a result of the successful completion of SAFTA TLP, Pakistan's trade in the SAARC region has increased substantially. For the past three consecutive fiscal years i.e. from FY 2014 till FY 2017, Pakistan's exports to the SAARC region were US $ 2510.71million and Pakistan's imports were US $ 2216.9 million

Source: Ministry of Commerce

Imports

The imports target for current financial year was set at US $48.82 billion for FY2018. Pakistan imports were up by 17.1 percent in the first eight months of the current fiscal year, rising from US $33,392 million during FY2017 (July-February) to US $39,099 million during first eight months of current financial year, showing an increase of $ 5707 million in absolute terms. To slow down the imports, an additional regulatory duty has been imposed to curtail the inflated imports.

Group-wise data on imports shows that the petroleum, transport and agriculture imports, food, textile and metal, imports recorded an increase during July- February, FY2018, except machinery group which decreased meagerly.

Food group generally constitutes around 10.8 percent of the total import bill. Food Group imports stood at US $ 4216.5 million during first eight months of current fiscal year as against import of US$ 3965.8 million during comparable period last year. The import bill growth of Palm Oil, the heaviest item in this group witnessed an increase of 8.8 percent in quantity and its value increased by 13.5 percent as compared to same period last year due to appreciation in Malaysian Ringgit and increased demand from non-traditional segments (such as tea whitener). Soyabean oil imports grew by 84.6 percent in value during July-February FY2018. Significantly higher production of soyabean lead to lower international prices of the commodity. Owing to low prices the importers substituted other soft oils such as canola and sunflower with soyabean, thus pushed up its imports.

Other mentionable items in this group are the import of tea, milk & related items and pulses, the import of tea and milk & related items surged by 10.2 percent and 1.5 percent, respectively. The import of pulses declined by 41.1 percent in value and 41.4 percent in quantity. Production of pulses is erratic due to many reasons mainly because less area is now available for cultivating them as growers keep shifting to more profitable, major cash crops, such as rice, wheat, maize, cotton and sugar cane. Besides, gains made in recent years in average yields of pulses are not high enough to make up for the loss in the area under cultivation

Surge in import bill of tea is due to increase in the international prices as the quantity demanded decline by 5.9 percent. Import bill of Milk products, however, increased mostly due to higher quantity demanded as quantity increased by 3.7 percent and in value terms. It increased by 1.5 percent during Jul-Feb FY2018 as against same period last year.

Despite high growth in overall import bill, import of Machinery group remained lower at 3.2 percent during July-February, FY2018 over the same period last fiscal year. It seems that the CPEC related projects are advancing to maturity as partially evident in the slowdown in machinery imports. Import bill of power generating machinery declined by 18.7 percent as compared to same period last year. Similarly import growth of textile machinery remained higher by 10.7 percent. However, import of construction machinery and Electrical machinery & Apparatus remained sluggish and witnessed a decline of 29.1 and 0.05 percent, respectively during July- February FY2018. Within machinery group import, telecom sector import increased by 13.8 percent during first eight months of current fiscal year compared with corresponding period last year. The imports of mobile handsets increased to US$ 526.0 million during the period of July-February FY2018 from US$ 459.4 million during same period last year, a surge of 14.5 percent. Import bill of other apparatus of telecom sector also increased by 12.9 percent during this period from US$ 422.8 million during July- February FY2017 to US$ 477.5 million during current year. Other sub items in machinery group such as other machinery, agricultural machinery, etc. also witnessed positive growth in their imports. (Table 8.4)

Transport group import bill remained higher by 46.6 percent rising to US$ 2,905.4 million during July- February FY2018 from US $ 1,981.1 million during July- February FY2017. Import of road motor vehicle, CKD/SKD (Completely Knocked Down/ Semi Knocked Down) of buses, motor cars and motor cycles increased by 19.7 percent and 3.4 percent respectively during first eight months of current fiscal year over corresponding period last year showing manufacturing activity in the country. The significant growth in the imports of auto parts correspond with strong sales of locally assembled vehicles. Besides surging imports of these items points to carmakers expectation of sustained high demand going forward as the industry tends to import kits and accessories on the basis of advance booking orders.

Complete Built Unit (CBU) of, motor cars and motor cycles increased by 32.2 and 140.5 percent, respectively, during July-February FY2018 as compared to same period last year. Passenger vehicles, including motor cycles, are witnessing a burgeoning demand due to growing ride- hailing business in the country and a sharp rise in auto financing by commercial banks.

Import bill of all other major items in this group also remained on higher side. Import of aircraft, boats & ships increased by 161.5 percent during July- February FY2018 period against corresponding period last year.

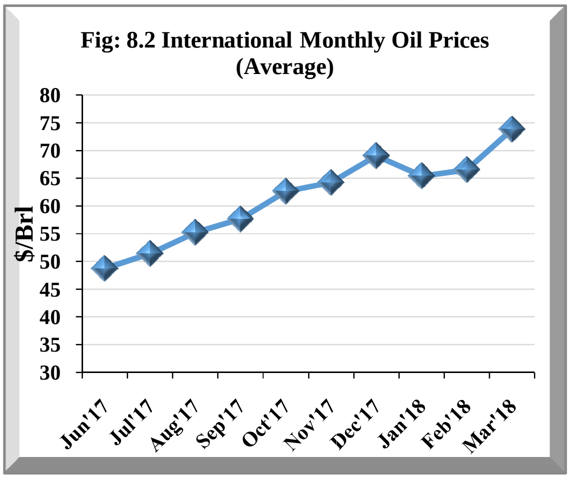
Table 8.4: Structure of Imports ($ Million)

	Particulars	July-February Values in Dollars 2016-17	July-February Values in Dollars 2017-18 P	% Change in Value	July-February Quantity 2016-17	July-February Quantity 2017-18 P	% Change in Quantity
	Total	33,392.17	39,098.64	17.09			
A.	**Food Groups**	3,965.85	4,216.55	6.32			
	Milk & Milk food	165.70	168.13	1.46	55,884	57,961	3.72
	Wheat Unmilled	0.00	0.00	0.00	0	0	0.00
	Dry Fruits	112.63	93.61	-16.88	89,829	68,342	-23.92
	Tea	361.29	398.06	10.18	139,522	131,335	-5.87
	Spices	89.11	106.59	19.63	78,915	88,875	12.62
	Edible Oil (Soybeans& Palm)	1,244.27	1,453.24	16.79	1,713,211	1,944,475	13.50
	Sugar	3.39	3.60	6.16	6,201	6,000	-3.24
	Pulses	600.13	353.43	-41.11	746,226	437,067	-41.43
	Other food items	1,389.33	1,639.88	18.03			
B.	**Machinery Group**	7,811.92	7,559.22	-3.23			
	Power generating Machines	2,185.12	1,776.26	-18.71			
	Office Machines	318.90	318.43	-0.15			
	Textile Machinery	344.41	381.38	10.73			
	Const. & Mining Machines	334.76	237.21	-29.14			
	Aircrafts, Ships and Boats	278.60	728.49	161.48			
	Agriculture Machinery	76.43	86.07	12.60			
	Other Machinery items	2,240.32	2,327.23	3.88			
C.	**Petroleum Group**	6,683.10	9,014.94	34.89			
	Petroleum Products	4,193.35	4,912.45	17.15	10,514,569	10835905	3.06
	Petroleum Crude	1,584.17	2,507.19	58.27	5,277,324	6797832	28.81
D.	**Consumer Durables**	3,015.83	3,328.12	10.35			
	Road Motor Vehicles	1,586.02	1,899.02	19.73			
	Electric Mach. & Appliances	1,429.81	1,429.10	-0.05			
E.	**Raw Materials**	4,804.97	5,968.46	24.21			
	Raw Cotton	327.62	390.46	19.18	191,476	221046	15.44
	Synthetic Fiber	294.96	344.62	16.84	144,906	161016	11.12
	Silk Yarn (Synth &Arti)	432.78	440.78	1.85	218,213	216313	-0.87
	Fertilizer Manufactured	471.09	583.33	23.83	1,256,379	1578292	25.62
	Insecticides	97.16	107.18	10.31	10,846	15396	41.95
	Plastic Material	1,209.12	1,505.24	24.49	795,391	980509	23.27
	Iron & steel Scrap	650.14	1,035.37	59.25	2,516,782	3566123	41.69
	Iron & steel	1,322.13	1,561.48	18.10	2,078,082	2335315	12.38
F.	**Telecom**	882.18	1,003.56	13.76			
G.	**All other items**	2,594.17	3,252.76	25.39			

P : Provisional

Source : PBS

The Import of petroleum group products grew by 34.9 percent during July- February FY2018 against the 20.9 percent growth in the corresponding period last year reflecting mainly the impact of higher international oil prices. The value has increased on account of increase in global crude oil prices in February 2018 to $ 65.4 per barrel from $ 55.5 per barrel of the same period last year. Moreover, during July-February FY2018, the petroleum group import bill increased by $ 2331.8 million in absolute term over the same period last year. The increase in the petroleum import bill is also evident from the international monthly average prices of oil. These surged from $ 42.6 per barrel in July 2016 to $ 62.8 per barrel in February 2018. Moreover, the quantity of petroleum product imports increased by 3.1 percent and quantum imports of crude oil increased by 28.8 percent during July-February FY2018.



In textile group, import of raw cotton increased both in quantity and value by 15.4 percent and 19.2 percent respectively, during July-February FY2018 as compared to same period last year.

Agricultural and other chemical group increased by 17.2 percent. The import bill of fertilizer increased both in value and quantity by 23.8 and 25.6 percent, respectively, during first eight months of current financial year as compared to last year.

Metal group bill also surged by 27.4 percent during July-February, FY2018 over the same period last year. Iron & steel import bill increased by 18.1 percent due to increase in the construction activity led to the higher demand for imported iron and steel products. Iron and steel scrap imports increased considerably by 59.3 percent during July-February FY2018. The imposition of regulatory and anti dumping duties on finished products, along with growing demand from construction and transport sectors are the prime reasons behind elevated scrap imports.

Direction of Imports

Pakistan's imports are mostly concentrated in a few markets. Pakistan imports from countries like China, Saud Arabia, UAE, and Indonesia constitutes more than 50 percent of the total imports. During current fiscal year, share of imports from China has decreased from 32 percent in last fiscal year to 25 percent during July-January 2017-18. However share of import from U.A.E, has fallen by 2 percent during July-January 2017-18 as compared to same period last year. Change in Pakistan's import pattern is shown in (Table 8.5,)

Table 8.5 : Major Import Markets (Rs billion & Percentage Share)

Country	2014-15		2015-16		2016-17		July-January 2016-17		July-January 2017-18 P	
	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share
CHINA	1,053.0	23	1261.9	27	1584.3	29	973.4	32	917.2	25
UAE	681.9	15	572.7	12	774.5	14	438.0	14	445.1	12
SAUDI ARABIA	365.5	8	237.2	5	227.7	4	120.7	4	188.6	5
KUWAIT	250.9	5	139.5	3	141.9	3	80.9	3	97.0	3
INDONESIA	209.6	5	222.7	5	240.4	4	124.8	4	159.1	4
INDIA	172.2	4	185.8	4	178.2	3	92.3	3	95.3	3
U.S.A	180.7	4	185.3	4	267.9	5	139.9	5	163.6	4
JAPAN	170.6	4	190.3	4	217.4	4	122.6	4	148.6	4
GERMANY	97.5	2	97.6	2	114.3	2	67.3	2	74.3	2
MALAYSIA	96.3	2	96.5	2	100.2	2	57.7	2	75.0	2
All Other	**1,366.0**	29	**1,469.2**	32	**1,692.9**	31	**819.9**	27	**1,290.5**	35
Total	**4,644.2**	100	**4,658.7**	100	**5,539.7**	100	**3,037.5**	100	**3,654.3**	100

P : Provisional

Source: Pakistan Bureau of Statistics

Balance of Payments

Pakistan's balance of payments remained under stress due to rising imports of capital equipment and fuel during July-March FY2018. Recovery in global oil prices also played a role in pushing up the import bill. The remarkable growth in exports earnings and remittances inflows was not sufficient to overcome the widening current account gap. Although higher financial inflows (both foreign investment and external financing) could not completely offset the increase in the current account deficit growth. The SBP's liquid foreign exchange reserves declined by US $ 4.5billion during the said period.

Import bill surged by 16.6 percent during July-March FY2018 as compared to last year, on account of higher oil imports. Whereas, non-oil imports are on decline from second quarter of current financial year as compared to the first quarter.

Portfolio investment is dominated by official inflows, after realization of floating of Sukuk and Eurobond worth of US $ 2.5 billion inflows in December 2017.

The current account deficit reached to US$ 12,029 million during July-March, FY2018 compared to a deficit of US$ 7,990 million in the corresponding period last year. The higher current account deficit was largely caused by the widening of trade and services account deficits.

Table 8.6: Summary Balance of Payments **US $ Million**

Items	July-June		July-March P	
	2015-16	2016-17	2016-17	2017-18
Current Account Balance	-4867	-12621	-7990	-12029
Trade Balance	-19,283	-26,680	-18479	-22302
Exports of Goods FOB	21972	22003	16314	18267
Imports of Goods FOB	41,255	48,683	34793	40569
Service Balance	-3,406	-4,339	-2879	-3848
Exports of Services	5,459	5,555	4314	3861
Imports of Services	8865	9894	7193	7709
Income Account Balance	-5347	-5048	-3424	-3550
Income: Credit	608	662	520	558
Income: Debit	5955	5710	3944	4108
Balance on Secondary Income	23169	23446	16792	17671
Of which:				
Workers' Remittances	19917	19351	14104	14608
Capital Account Balance	273	375	284	285
Financial Account Balance	-6790	-10198	-6314	-7591
Direct Investment in Pakistan	2305	2749	2006	2096
Portfolio Investment in Pakistan	-329	-251	631	2358
Net Incurrence of Liabilities	5029	8965	3859	3051
Net Errors and Omissions	456	102	-222	-216
Overall Balance	-2652	1946	1614	4369

P: Provisional

Source: State Bank of Pakistan

Current Account

Pakistan's current account deficit shrank by 9.2 percent on month on month basis in March 2018 and reached to US $ 1.16 billion as compared to US $ 1.28 billion in February 2018. However, the current account deficit widened by 50.5 percent and reached to US$ 12.0 billion (3.8 percent of GDP) during July-March FY2018. This was mainly due to 20.6 percent widening in the trade deficit, which amounted US$ 22.3 billion. The widening of trade deficit is mainly due to surge in import bill by 16.6 percent and reached to US $40.6 billion which overshadowed the increase in exports and workers' remittances.

On month on month basis the import bill declined during first quarter and then started increasing in the second quarter of the current fiscal year , thus showing that cushion of low international prices has ended now. The increase in machinery group is mainly due to power generation equipment, corresponding

CPEC-related activity in power and infrastructure development. The surged in machinery and POL imports bodes well for overall economic activity.

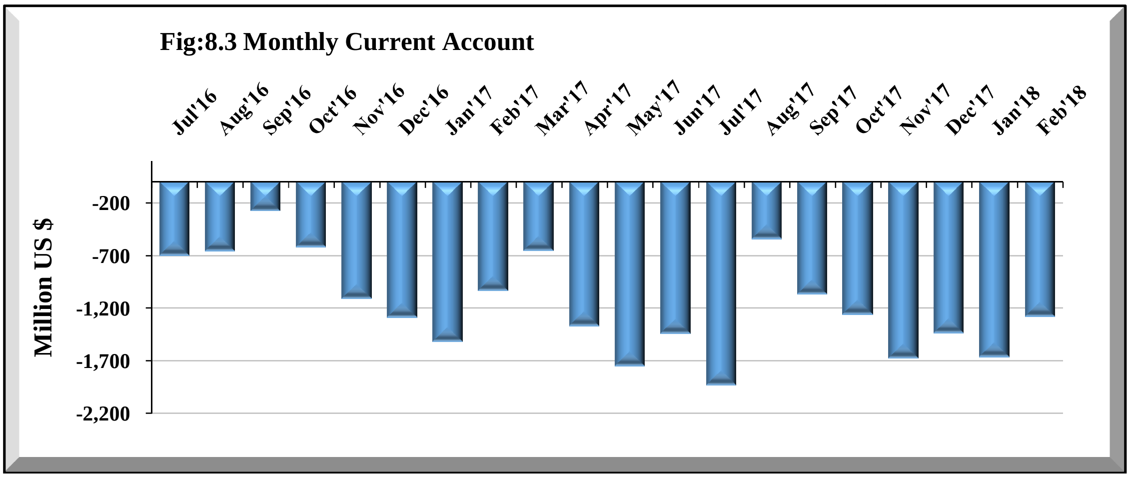


Fig:8.3 Monthly Current Account

Table 8.7 Current Account Deficit **($ Billion)**

Jun-17	1.445	CA deficit, % Change MoM	Jun-16		CA deficit, % Change YoY					Average Growth in CA deficit
Jul-17	1.932	33.7	Jul-16	0.701	175.61	Jul-17	2.053	Jul-16	0.662	210.12
Aug-17	0.545	-71.8	Aug-16	0.658	-17.17	Jul-Aug-17	2.601	Jul-Aug-16	1.287	102.10
Sep-17	1.069	96.1	Sep-16	0.278	284.53	Jul-Sep-17	3.557	Jul-Sep-16	1.637	117.29
Oct-17	1.26	17.9	Oct-16	0.622	102.57	Jul-Oct-17	5.013	Jul-Oct-16	2.259	121.91
Nov-17	1.677	33.1	Nov-16	1.112	50.81	Jul-Nov-17	6.430	Jul-Nov-16	3.371	90.74
Dec-17	1.437	-14.3	Dec-16	1.289	11.48	Jul-Dec-17	7.413	Jul-Dec-16	4.660	59.08
Jan-18	1.665	15.9	Jan-17	1.522	9.40	Jul-Jan-18	9.156	Jul-Jan-17	6.182	48.11
Feb-18	1.281	-23.1	Feb-17	1.034	23.89	Jul-Feb-18	10.826	Jul-Feb-17	7.216	50.03
Mar-18	1.163	-9.2	Mar-17	0.665	74.89	Jul-Mar-18	12.029	Jul-Mar-17	7.99	50.55

Source : State Bank of Pakistan

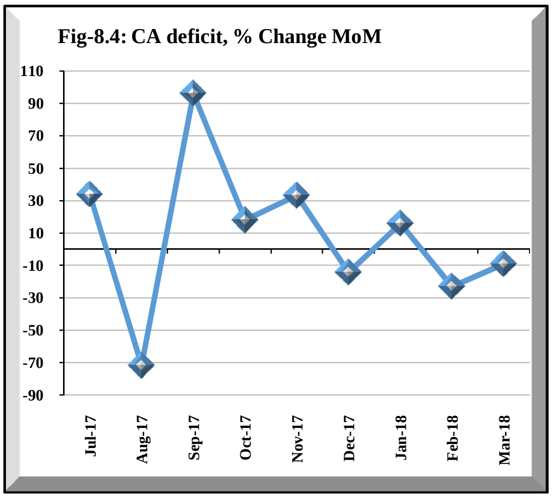


Fig-8.4: CA deficit, % Change MoM

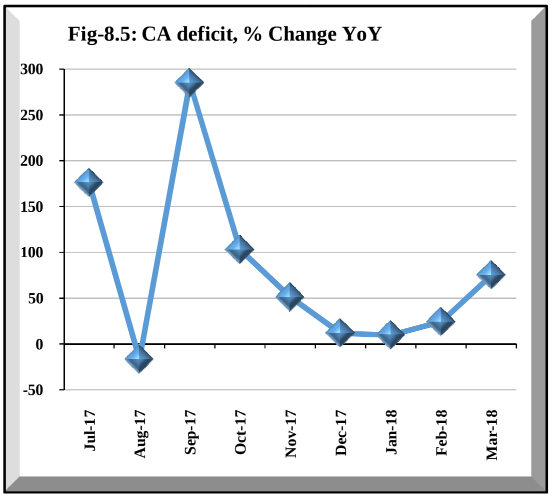


Fig-8.5: CA deficit, % Change YoY

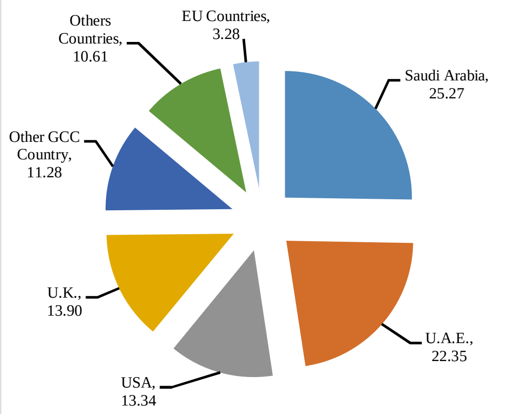
Workers' Remittances

The remittances registered a significant growth of 3.6 percent during July-March FY 2018 as against the decline of 2.0 percent last year, and reached to US$ 14.6 billion during first nine month of current financial year as compared to 14.1 billion during the same period last year. The trend will continue in coming months and is expected that the target of US$ 20.6 billion for FY 2018 is likely to be achieve.

The major share of remittances are from Saudi Arabia 25.3 percent(US $ 3.690.57 million), U.A.E 22.4 percent (US $ 3264.73 million), U.K 13.9 (US $ 2030.62 million) , USA 13.3 percent (US $ 1948.0 million) ,other GCC countries 11.3 percent (US $ 1648.13 million), EU 3.3 percent (US $ 478.9 million) and other countries 10.3 percent. The remittances during July-March FY2018 have declined by 9.5 percent from Saudi Arabia, 3.5 percent from other GCC countries. The decline from Saudi Arabia is offset by the higher inflows from U.K and USA. The remittances from USA increased by 12.03 percent, 22.45 percent from UK, 3.87 percent from UAE, and 43.97 percent from EU countries compared to same period last year. Robust economic growth in US and low unemployment has supported the growth in remittances from US. Moreover, strong growth in UK and a sharp appreciation of the British Pound against US dollar led to significant rise in the dollar value of the remittances originated from the UK.

Decline in remittances from Saudi Arabia was on account of economic reform like job nationalization drive to replace foreign worker with Saudi citizens. Furthermore, Saudi Arabia along with UAE has introduced value added tax imposed on wholesale, retail sale which increased the cost of living for unskilled lower income workers. Majority of the Pakistani manpower proceeds abroad in unskilled/ labourer trade. The overall decline in unskilled occupation is 28.51 percent during July-December FY 2018 as compared to same period last year.

Fig: 8.6 Worker's Remittances Jul-March FY2018

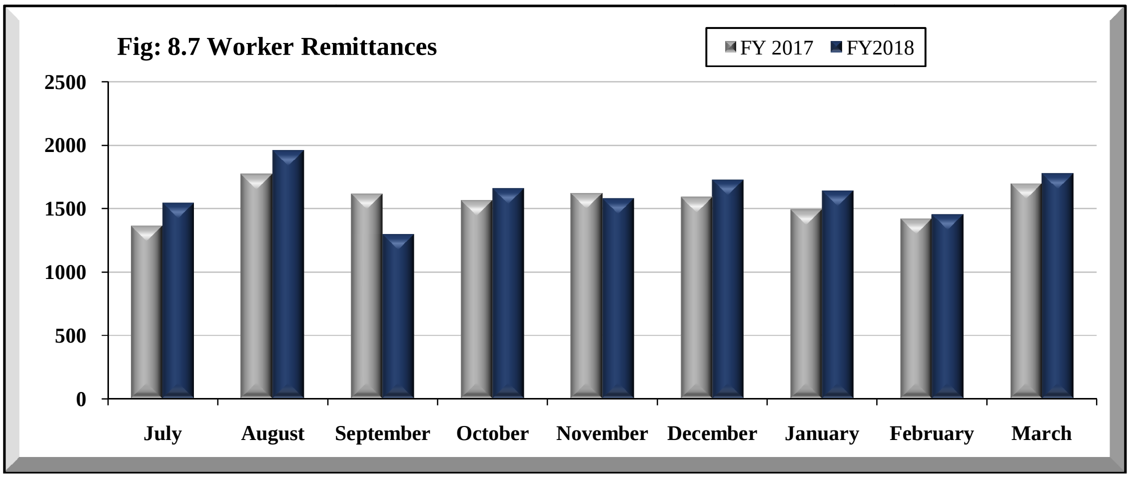


During current fiscal year two policy initiatives have been undertaken i.e. Asaan Remittance Account and the promotion of home remittances through M-wallets which would help to boost in the remittances. Asaan Remittance Account aims to encourage beneficiaries to receive remittances in a secured banking environment, M-Wallets aims to increase financial inclusion along with reduction in the cost of remittances delivery.

Table 8.8: Country/Region Wise Cash Worker's Remittances

Country/Region	July-March		($ billions)	
	2016-17	2017-18	% Change	Share
Saudi Arabia	4.08	3.69	-9.50	25.27
U.A.E.	3.14	3.26	3.87	22.35
USA	1.74	1.95	12.08	13.34
U.K.	1.66	2.03	22.47	13.90
Other GCC Country	1.71	1.65	-3.45	11.28
Others Countries	1.45	1.55	6.90	10.61
EU Countries	0.33	0.48	43.97	3.28
Total	14.11	14.61	3.57	100.0

Source : State Bank of Pakistan



Financial Account

The financial account recorded a surplus of US$ 7.6 billion in July-March FY2018, which was significantly higher than the surplus of US$ 6.3 billion recorded in July-February FY2017.

The improvement is mainly due to floatation of Sukuk and Eurobond worth US $ 2.5 billion in December 2017 which significantly increased the FPI inflows.

Foreign Direct Investment

Foreign investment picked up pace from last year's levels, with both direct and portfolio investment contributing to the gains. Net FDI inflows rose 4.4 percent to US$ 2.1 billion in July- March FY2018, against US$ 2.0 billion of the same period last year. While China continued to have a major share (accounting for 55 percent of overall inflows), significant FDI from other countries like the Malaysia and UK was also witnessed this year.

Going forward, in order to attract foreign investment in other sectors, Pakistan needs to improve its position in doing business as the country falls behind most of its regional peers. The World Bank's Doing Business Report 2018 ranked Pakistan 147 out of total 190 economies, behind Bhutan (75), India (100), Nepal (105), Maldives (136), Srilanka (111), only ahead of Bangladesh (177) and Afghanistan (183).

In terms of sectors, the power sector attracted the highest net FDI of US$ 711.1 million in-line with CPEC-related sectoral activity. Similarly, as infrastructure projects under CPEC are also in process, the construction sector saw net FDI of US$ 525.4 million. Oil & gas explorations attracted net FDI of 154.6 million.

Foreign portfolio investment

In portfolio investment, net inflows amounted to US$ 2357 million in July-March FY2018, as compared to US$ 631 million posted a growth of 273.5 percent during the same period of last year. The government successfully issued Sukuk of US $ 1.0 billion and Eurobond of US $ 1.5 billion in international capital markets at relatively low risk premium indicating the confidence of foreign investors on performance of Pakistan's economy. These inflows not only offset the outflow of foreign funds from domestic equity market, but also helped the government to retire some of its external commercial borrowings.

The foreign selling pressure seen by the emerging equity markets during end-2016 (due to US elections and anticipation of Fed rate hike), eased since the start of 2017. In particular, downward trend in some of the Asian equity markets during second quarter of FY2017 was reversed in second quarter of FY2018. However, China and Pakistan were not among the beneficiaries of this comfort. China's deleveraging reforms appeared to have triggered the equity sell-off in November 2017.

The Pakistan Stock Exchange (PSX), supported by local investors, outperformed the emerging equity markets in second quarter of FY2017.

However, the momentum gained until May 2017 began to lose steam, when the local investors stepped back mainly due to the country's looming political uncertainty. More recently, Pakistani equities are back on the radars of foreign investors, driven by two major developments in Dec 2017.

First, the country successfully raised US$ 2.5 billion through issuance of Eurobond and Sukuk at relatively competitive rates. Secondly, the rupee-dollar exchange rate adjustment in December 2017 and March 2018 seems to have attracted foreign investors, who had put their investments on hold.

Meanwhile, public flows continued to dominate foreign portfolio investment in Pakistan. A massive inflow of US$ 2.5 billion in second quarter of FY2018 more than offset net foreign outflows of US$ 90 million in the country's equity market.

Table 8.9: Foreign Investment **($ Million)**

	FY 2016	FY 2017 R	July-March	
			FY 2017 R	FY 2018 P
A. Foreign Private Investment	1985.6	2234.0	1658.7	2000.8
Foreign Direct Investment	2305.3	2746.8	2005.0	2094.1
Inflow	3165.2	3451.0	2522.3	2631.1
Outflow	859.9	704.2	517.3	537.0
Portfolio Investment	-319.7	-512.8	-346.3	-93.3
Equity Securities	-319.7	-512.8	-346.3	-93.3
Debt Securities				
B. Foreign Public Investment	-8.8	262.1	977.5	2450.5
Portfolio Investment	-8.8	262.1	977.5	2450.5
Total Foreign Investment (A+B)	1976.8	2496.1	2636.2	4451.3

Source: State Bank of Pakistan

Fig: 8.8 Country-Wise FDI
(JulyMarch FY 2018)

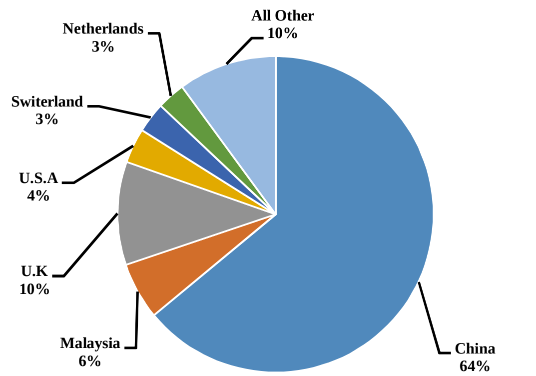
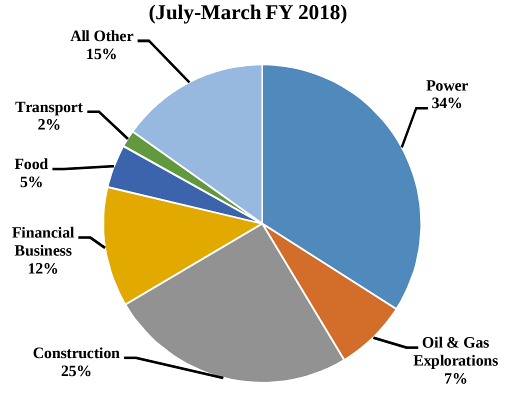


Fig:8.9 Sector-Wise FDI
(July-March FY 2018)



Reserves and Exchange Rate

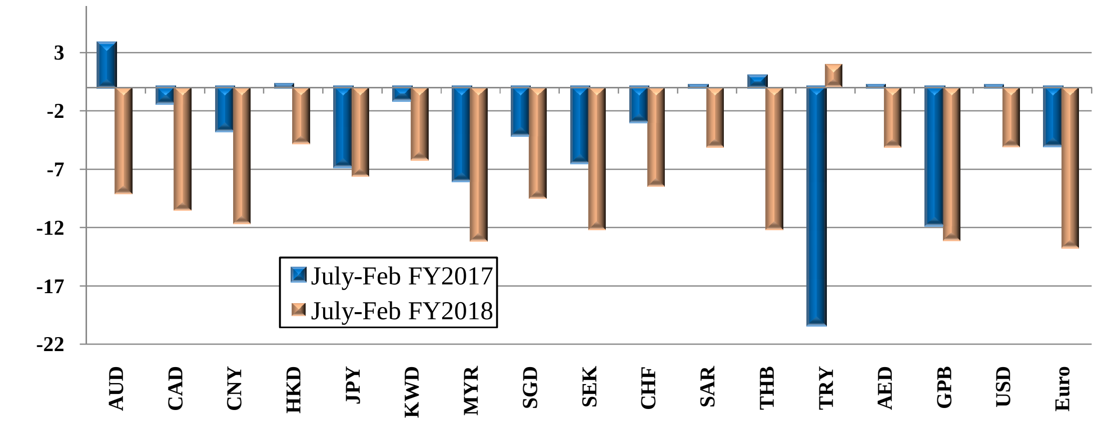
With the current account deficit widening and not being fully offset by financial inflows, the country's total liquid FX reserves fell by US $ 4.5 billion during July-March FY2018.

The drop was higher in the first five month of FY2018, when official reserves decreased by US $ 3.9 billion. The issuance of US $ 2.5 billion worth of Eurobond and Sukuk partially slowed this downfall in the SBP's reserves. The decline came mainly in SBP's liquid reserves (which at April 18, FY2018 was US$ 11.09 billion), and reserves held by commercial banks are US$ 6.1 billion during the period.

Despite the pressure on SBP reserves, the commercial bank reserves increased by US $936.3 million during July-March FY2018. In anticipation of PKR depreciation, retail investors and the general public, purchased dollars from the kerbs market and deposited them in foreign currency accounts.

The PKR depreciated against the US Dollar by 4.5 percent during second quarter of FY2018, it then dropped by a further 4.3 percent in March 2018, bringing the cumulative depreciation of 9.2 percent during Jul-March FY2018. Notably, the PKR depreciation came at a time when most currencies of developed and developing economies were strengthening against the USD, mainly due to dollar's weakness and favorable economic conditions in these countries.

Fig: 8.10 Movement of PKR Against Major Currencies



The significant depreciation against most important currencies, Pakistan's nominal effective exchange rate (NEER) depreciated by 9.6 percent during July-February FY18. The real effective exchange rate (REER), on the other hand depreciated by 9.3 percent, driven mainly by NEER, as the RPI remained relatively unchanged during the period ; this suggest that the Rupee's competitiveness in real terms viz a viz currencies of other trading partners has improved.

Fig: 8.11 Foreign Exchange Reserve (US $ Million)

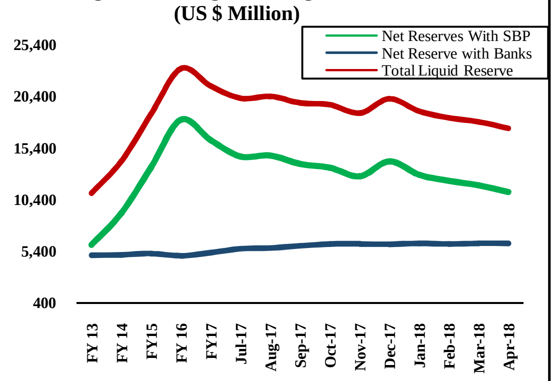


Fig: 8.12 Trend in PKR's NEER, RPI and REER

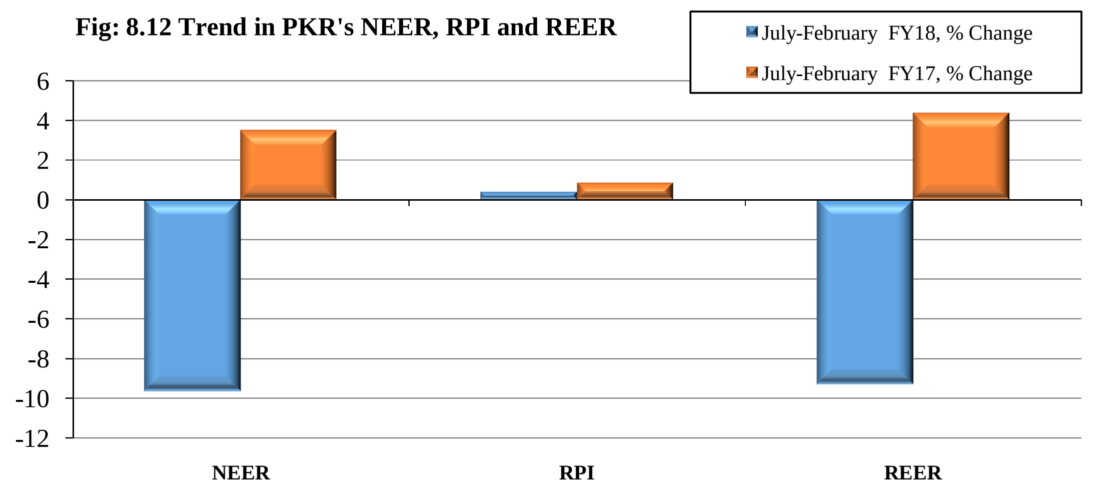


Table: 8.10 Liquid Foreign Exchange Reserve (Million US $)			
End Period	**Net Reserves With SBP**	**Net Reserve with Banks**	**Total Liquid Reserve**
FY 11	14,783.60	3,460.20	18,243.80
FY 12	10,803.30	4,485.30	15,288.60
FY 13	6,008.40	5,011.20	11,019.60
FY 14	9,097.50	5,043.60	14,141.10
FY15	13,525.70	5,173.50	18,699.20
FY 16	18,142.60	4,955.90	23,098.50
FY17	16,144.80	5,258.10	21,402.90
Jul-17	14,587.40	5,635.60	20,223.00
Aug-17	14,681.40	5,719.50	20,400.90
Sep-17	13,857.20	5,918.00	19,775.20
Oct-17	13,491.40	6,092.30	19,583.70
Nov-17	12,660.70	6,113.00	18,773.70
Dec-17	14,106.90	6,070.20	20,177.10
Jan-18	12,793.70	6,162.00	18,955.70
Feb-18	12,227.30	6,089.00	18,316.30
Mar-18	11,776.10	6,172.30	17,948.40
*Apr-18	11088.7	6170.4	17,299.20
*: 16th April, 2018			
Source: State Bank of Pakistan			

Conclusion

The recovery in global economy has manifold effects on Pakistan's economy. On the positive side the export registered a double digit growth after a long period of seven years. This provides motivation for production and investment in key exporting sectors but also provides support to worsening current account. On going global economic recovery, PKR depreciation and government initiatives would provide support to the export growth.

Imports surged by 16.6 percent during July-March FY2018, mainly due to rising global oil prices and vibrant domestic demand. As a result trade deficit surged by 20.6 percent, which is partly offset by the worker's remittances. Worker remittances registered a modest growth on the back of higher inflows from U.K and U.S.

Financial account balance posted a growth of 20.2 percent during July-March FY2018. The improvement is mainly due to floatation of Sukuk and Eurobond worth US $ 2.5 billion in December 2017 which significantly increased the FPI inflows.

Foreign investment picked up pace from last year's levels, with both direct and portfolio investment contributing to the gains. Net FDI inflows rose 4.4 percent to US$ 2.1 billion in July- March FY2018, against US$ 2.0 billion during the same period last year.