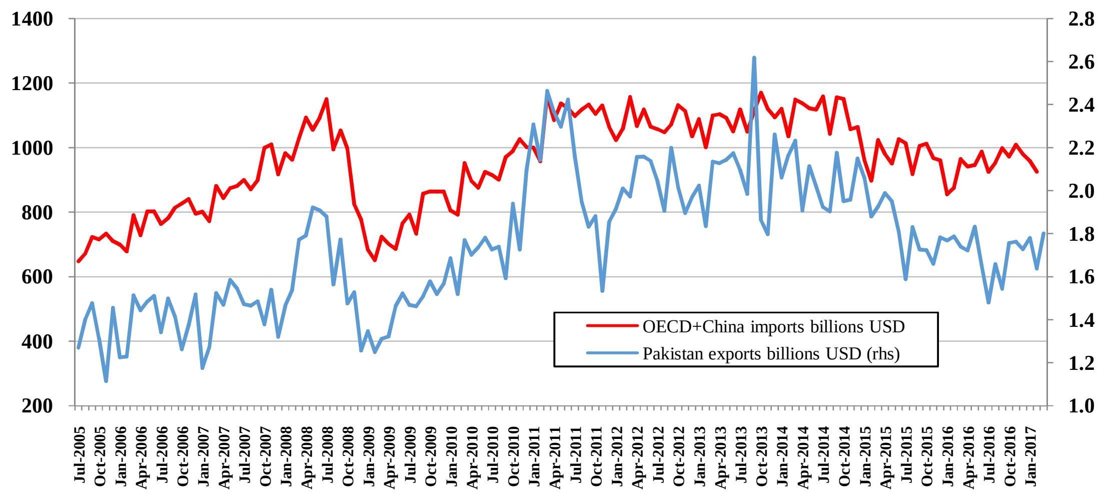
Chapter 08

Trade and Payments

World imports had been stagnant between 2011 and 2014 but registered significant drop since early 2015 because of weak commodity and product prices and weak global economic activity. Economic growth was lacklustre in the OECD countries which contributed to the slowdown in China. Furthermore, the ratio between real growth in world imports and world real GDP growth substantially declined. This decline in the import content of economic activity triggered a shift in consumption world-wide from traded towards non-traded goods, import substitution, a slowdown in the pace of trade liberalization, and gave currency to protectionist measures.

A bulk of Pakistan's exports are directed to the OECD region and China. Historical data suggest strong correlation between Pakistani exports to imports in OECD and China. As per FY 2016 data, more than half of our exports are shipped to these two destinations i.e. OECD and China. A decline in our overall exports, thus occurred in this backdrop.

Fig-1: Pakistan's Exports relationship with OECD+China Imports



In the wake of the referendum in 2016, the United Kingdom has invoked Article 50 of EU Constitution in March, 2017 to start the formal process of exiting from the European Union. As a result of the Referendum and in its run up, British Pound witnessed a sharp fall in its value with reference to other currencies. This made imports into UK expensive. In this turbulent situation, Pakistan's exports to UK declined by 5 percent during July-December, 2016 over the same period in 2015. Government has formally taken up with United Kingdom, initiation of a trade dialogue between the two countries at an early date.

Pakistan's external sector continued to face severe stress during 2016-17. Though the rate of export decline was stemmed, Pakistan's exports declined by 3.06 % during the first 9 months of the fiscal year 2016-17. Imports, however, continued to grow at a much faster rate and grew by a large percentage of 18.67 during the first nine months of the FY2017 as compared to the previous year.

Initiatives Undertaken for Export Promotion

Mindful of the issues and prevalent international situation, government has taken host of measures/initiatives for the promotion of exports during FY2017. These include:

- Measures announced by Prime Minister in January 2017 to be implemented during eighteen months. The Package "Export led growth" has started showing a positive impact and exports started recovering in the third and fourth quarters of the outgoing fiscal year. As in March, 2017 yoy growth witnessed 3.62 percent and month on month growth in March remain 5.9 percent higher over February, 2017. Moreover, exports in April, 2017 also improved by 5.12 percent on yoy over last year and month on month by 0.22 percent in April, 2017 over previous month.
- A number of measures were announced in the Strategic Trade Policy Framework, particularly aimed at technological development. The schemes have been operationalized and are expected to show results soon by enhancing the productivity of manufacturing in Pakistan.
- To overcome the constraints of trade financing, the government has already established the Exim Bank, which has set up its office in Lahore and would soon be playing its role in the promotion of Pakistan's exports.
- Under the instructions of the Prime Minister, Working Groups have been established to put in place a proper regulatory framework for the promotion of E-Commerce and IT exports.
- Pakistan is of the view that UK should grant enhanced market access to Pakistan analogous to EU's Special Incentive Arrangement for Good Governance and Sustainable Development.
- Pakistan's exports are hamstrung due to a disconnect between domestic competitiveness and international trade competitiveness. The Ministry of Commerce is working to improve regulatory and policy frameworks of different federal and provincial organizations impacting the business environment in Pakistan. Through active collaboration with organizations like the Ministry of Science & Technology, the Ministry of Industries, the Ministry of National Food Security & Research, the Ministry of National Health Services, Regulations and Coordination, the Ministry of Human Resource Development and Overseas Pakistanis (HRD & OP), the Ministry of Commerce is working to develop a policy framework of domestic commerce to improve and harmonize regulations at various governmental levels. The Ministry of Commerce through these initiatives is working towards creating an enabling environment for "Enterprise Development".
- The Ministry of Commerce has established the Services Trade Development Council, which is preparing a Strategic Policy Framework for Trade in Services to give a major boost to the export of services.
- The Ministry of Commerce is revamping the export development institutional infrastructure of the country and new Trade Development Councils in Leather, Pharmaceuticals and Rice sectors are being established.
- The State Bank of Pakistan reduced its mark-up rate on Export Refinancing Facility (EFR) from 9.0 percent in 2010 gradually reduced to 3.0 percent from 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.

- Free Trade Agreements play an important role in the promotion of exports. Pakistan already has FTAs with China, Malaysia and Sri Lanka and is a member of regional arrangements like SAFTA and ECOTA. The ECO Summit held in Islamabad in early 2017 was designed to give a boost to regional economic development. It is expected that the connectivity infrastructure in the context of CPEC (One Belt One Road) and the infrastructure initiatives under way in Central Asia under CAREC would result in much better connectivity. With the accession of Pakistan to WTO's Trade Facilitation Agreement and TIR Convention, Pakistan would become a logistic hub in the coming period. The government has fast tracked the on-going FTA negotiation with Turkey and Thailand. The early conclusion of these FTAs would resultantly boost strengthening of bilateral relations with the two growing economies in the region as well as provide gateway of market access to two EU and ASEAN. (Box-I)

Box- 1: Free Trade Agreements (FTAs)

China Pakistan FTA (CPFTA):

China-Pakistan Free Trade Agreement (CPFTA) on trade in goods was signed on 24th November, 2006 and implemented from 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.

Pakistan-China volume of trade, which was in the region of US$ 4 billion in the year 2006-07, reached an all-time high at US$ 13.77 billion in 2015-16. Pakistan's exports have increased by almost 200 percent (US$ 575 million in FY2007 to 1690 million in FY2016). China's exports to Pakistan have increased to almost 250 percent (US$ 3.5million in FY2007 to 12.1 billion in FY2016).

Malaysia- Pakistan FTA (MPCEPA)

A Comprehensive Free Trade Agreement (FTA) for Closer Economic Partnership between Pakistan and Malaysia was signed on 08-11-2007 at Kuala Lumpur. It is operational from 1stJanuary 2008.The tariff reduction commitments involved elimination of tariffs on 43.2% of Pakistan's imports from Malaysia and 78% of Malaysia's imports from Pakistan. In 2007-08, Pakistan-Malaysia bilateral trade was US$ 1238.808 million with Pakistan's exports amounting to US$ 81.323 million. In the same year Pakistan‘s imports from Malaysia were US$ 1157 million. After the implementation of the Agreement, Pakistan's exports to Malaysia have increased to US$ 188 million and imports decreased to US$ 814 million.

Pakistan -Sri Lanka FTA (PSFTA);

Pakistan and Sri Lanka signed a Free Trade Agreement in 2002 which became operational in June, 2005. Under the FTA, concessions that are granted, list of Pakistan contains 206 items of 100% concession. The Sri Lanka has granted access to the Pakistani rice and potatoes subject to a Tariff Rate Quota.

Under this FTA, tariff preferences offered to Pakistan are, though less in number, have resulted in an increase of Pakistan's exports. After signing of FTA, Pakistan's bilateral trade with Sri Lanka increased from US$ 200 million in 2004-05 to US$321.71 million in 2015-16. Pakistan's exports in the corresponding period have also increased from US$ 155.83 million to US$ 247.11 million.

SOUTH ASIAN FREE TRADE AREA (SAFTA)

The SAARC Preferential Trading Arrangement (SAPTA) was signed in April, 1993. Subsequently, the 16thSession of the Council of Ministers of SAARC (at New Delhi, in December 1995) agreed to establish a South Asian Free Trade Area. The Agreement on South Asian Free Trade Area (SAFTA) was signed during the 12th SAARC Summit held at Islamabad on 6th January, 2004.

The Tariff Liberalization Programme (TLP) on the under SAFTA was finalized during the first meeting of SAFTA Committee of Experts (COE) held in Dhaka, in April, 2006. The first two phases of the TLP under SAFTA have been implemented by all countries.

Impact of TLP on Pakistan's Trade with SAARC Region

Pakistan's trade in the SAARC region has increased substantially due to TLP. In FY 2003-04, Pakistan's total export to the SAARC region was US$ 886 million which increased to US$ 1,564 million in FY 2006-07 (in the first year of SAFTA's implementation).During FY 2015-16, Pakistan's exports to the SAARC region were US$ 2690.23 million.

Pakistan's total imports from the SAARC region have increased from US$ 527 million in 2003-04 to US$ 2318.49 million in 2015-16.

Source: Ministry of Commerce

Merchandise Trade during 2016-17

Pakistan's external sector continued facing stress during 2016-17. The decline in export was curtailed but still Pakistan's merchandise trade exports declined by 3.06 percent during the first nine months of the fiscal year 2016-17. The imports continued to grow at a much faster rate and grew by a large percentage of 18.7 during the first nine months of the FY 2017 as compared to the previous year.

Exports

Exports during July-March, 2016-17 decreased to US$ 15.119 billion from US$15.597 billion during July-March, 2015-16, registering a decrease of 3.06 percent compared to 12.9 percent witnessed during same period in 2015-16 over 2014-15. However, government's continuous support to the export sectors and different initiatives discussed above has now started bearing fruit as on month on month trend is also now in the positive. Exports during March 2017 grew by 3.6 % as compared to March 2016 and grew by 9.95 % as compared to February 2017. An impressive performance in March 2017 hints a faster recovery.

Analysis of group-wise exports suggests that Food group registered a decline of 11.6 percent during July – March FY2017 compared to the same period last year. Within food group, rice exports declined by 14.9 percent.

Table 8.1: Structure of Exports ($ million)

	Particulars	July-March Values in Dollars		% Change in Values	July-March Quantity		% Change in quantity
		2015-16	2016-17 P		2015-16	2016-17P	
	Total	15,597.5	15,118.6	-3.1			
A.	**Food Group**	3,037.8	2,685.9	-11.6			
	Rice	1,376.2	1,170.7	-14.9	3,140,788	2,684,622	-14.5
	Basmati	316.9	293.1	-7.5	341,115	327,830	-3.9
	Other Rice	1,059.3	877.6	-17.2	2,799,673	2,356,792	-15.8
	Sugar	132.3	66.5	-49.7	293,541	123,443	-57.9
	Fish & Fish Preparation	240.0	276.3	15.1	92,046	103,277	12.2
	Fruits	356.3	325.6	-8.6	590,671	439,797	-25.5
	Vegetables	150.6	113.2	-24.9	508,355	386,109	-24.0
	Spices	56.2	60.3	7.4	15,113	16,409	8.6
	Meat & Meat Preparation	212.4	163.2	-23.1	61,656	43,125	-30.1
	Other Food items	513.8	510.0	-0.7			
B.	**Textile Manufactures**	9,362.3	9,278.9	-0.9			
	Cotton Yarn	989.0	938.6	-5.1	327,036	344,468	5.3
	Cotton Cloth	1,685.3	1,581.2	-6.2	1,659,455	1,410,359	-15.0
	Knitwear	1,746.9	1,745.7	-0.1	85,460	89,520	4.8
	Bed wear	1,508.6	1,585.7	5.1	244,295	263,814	8.0
	Towels	597.0	578.0	-3.2	135,646	132,723	-2.2

Table 8.1: Structure of Exports							($ million)
	Particulars	July-March Values in Dollars		% Change in Values	July-March Quantity		% Change in quantity
		2015-16	2016-17 P		2015-16	2016-17P	
	Readymade Garments	1,608.7	1,704.1	5.9	23,704	24,823	4.7
	Made-up articles	471.6	485.1	2.9			
	Other Textile Manufactures	755.2	660.5	-12.5			
C.	**Petroleum Group**	128.9	139.2	8.0			
	Petroleum Crude	88.9	56.3	-36.7	248,692	152,992	-38.5
	Petroleum Products	39.0	50.4	29.4	67,982	94,865	39.5
	Petroleum Top Naphtha	1.1	32.5	2,955.9	3,080	87,015	2725.2
D.	**Other Manufactures**	2,386.7	2,274.1	-4.7			
	Carpets, Rugs & Mats	74.0	61.2	-17.3	1,372	1,322	-3.6
	Sports Goods	234.6	225.2	-4.0			
	Leather Tanned	267.8	252.4	-5.7	12,691	11,970	-5.7
	Leather Manufactures	396.4	371.7	-6.2			
	Surgical Goods. & Med. Inst	262.7	250.6	-4.6			
	Chemical & Pharma. Pro.	588.5	621.5	5.6			
	Engineering Goods	134.3	126.0	-6.2			
	Cement	248.0	191.5	-22.8	4,555,239	3,644,625	-20.0
	All Other Manufactures	180.4	174.0	-3.5			
E.	**All Other items**	681.7	740.5				

Source : PBS

The Basmati rice declined by 7.5 percent in value and 3.9 percent in quantity during July-March FY2017 as compared to corresponding period last year suggesting a fall in the global basmati rice prices during the period. However, month on month basis in March its exports value increased by 8.0 percent despite sharp decline in quantity by 8.8 percent, showing a reverse trend in the prices of basmati rice. The others variety under rice group witnessed a decline of 17.2 percent in value and 15.8 percent in quantity, compared to the corresponding period last year.

There are many reasons for the declining trend in rice exports, these includes strong competition with India, lack of R & D in new varieties and loss of our key customers like Iran. Pakistan's share in Saudi Arabia's market has also declined to 20 percent. The issue of banking channels with Iran has been resolved and business has resumed, the opening of this major market will help to boost the exports of rice.

Export earnings from fruits also registered a decline of 8.6 percent in value and 25.5 percent in quantity, while vegetables also witnessed a decline of 24.9 percent in value and 24 percent in quantity. This suggests that due to international competition along with lack of exportable surplus we could not capture the market of these items despite rising prices.

Fish & fish preparation subgroup during July-March FY2017 witnessed a growth of 15.1 percent in value and 12.2 percent in quantity, compared to last year. On month on month in March exports of fish & fish preparation increased both in value and quantity by an impressive growth of 25.2 percent, 39.7 percent respectively. Exports of sugar declined both in quantity and value i.e. 57.9 percent in quantity and 49.7 percent in value, during July-March FY2017 as compared to same period last year. During recent months, ECC has allowed export of sugar whose impact will be visible with time lag. The exports of spices remained favorable by 7.4 percent in value and 8.6 percent in quantity during the period.

Meat and Meat preparation declined by 23.1 percent in value, and 30.1 percent decline in quantity during July – March FY2017 as compared to the corresponding period last year. Despite favorable price we could not capture the market mostly due to lack of exportable surplus. Month on month in March 2017 it increased both in quantity and value by 44.6 percent and 21.0 percent, respectively.

Textile group, which has 61 percent share in total exports, witnessed a marginal decline of 0.9 percent during July – March, FY2017 compared to the corresponding period last year. This decline was 8.2 percent last year (2015-16 over 2014-15). This is very encouraging and suggests that government steps and initiatives to boost the textile exports have started bearing fruit. On month on month the textile group improved by 7.0 percent and reached to US $1064.9 million in March, 2017.

Major items with positive growth also include value added items like ready made garments and bed wear.

Export earnings of readymade garments shows remarkable growth of 5.9 percent in value and 4.7 percent in quantity during July- March FY2017 compared to same period last year. However, export of readymade garments also show improvement in quantity by 10.4 percent and 3.7 percent in value on month on month basis. Bed-wear export grew by 5.1 percent in value and 8.0 percent in quantity during July- March FY2017 compared to same period last year. On month on month basis in March exports of bed-wear increased by 4.0 percent in quantity and value improved by 2.9 percent. The grant of GSP status by EU had a positive impact on these two items both in value and quantity.

Knitwear declined marginally by 0.1 percent in value but posted a significant growth of 4.8 percent in quantity during July-March FY 2017 over the same period last year. This suggests declining trend in the international prices of knitwear. On month on month basis in March its value increased by 4.1 percent and quantity remained unchanged, showing rebound in prices. Exports of towel declined both in quantity and in value by 2.2 and 3.2 percent respectively during July – March FY2017 as compared to corresponding period last year. Whereas exports of towels on month on month in March increased by 9.6 percent in value and 12.6 percent in quantity. The monthly data (March FY2017) showed that exports of value-added products grew during the month, both in terms of value and quantity.

The exports of intermediate commodity like cotton yarn witnessed decline in value by 5.1 percent where as quantity improved by 5.3 percent during first nine months of current year as compared to last year. Cotton cloth export declined by 6.2 percent in value, and in quantity a negative growth of 15.01 percent is recorded during July – March FY2017 as compared to same period last year, showing strong price effect than quantity effect. On month on month in March 2017, quantity exported increased by 20.5 percent and value improved by 20.7 percent. The export of raw cotton declined by 48.7 percent in value and 52.9 percent in quantity during July-March FY 2017, but on month on month in March 2017 basis its exports increased by 7.0 percent in value and declined by 5.6 percent in quantity, suggesting that international prices have increased.

During July – March FY2017 petroleum and coal group's exports recorded a growth of 8.0 percent over the corresponding period last year. However, on month on month the petroleum and coal group witnessed a growth of 77.7 percent in March 2017 over February 2017. Major contributor in its growth is export of petroleum products which grew by 29.4 percent during the under period review. In quantitative terms the export of this sub-group is much stronger as it witnessed a growth of 39.5 percent.

Export of most of the items in the "Other Manufacturers Group" witnessed a declining trend during July – March FY2017. As a whole this group posted a negative growth of 4.7 percent against same period last year. Export of major items in this group like leather tanned and leather garments, sports goods, etc. could not grow in quantitative terms. In case of leather products our exports could not compete in the international market against our competitors like China, India, Bangladesh, Vietnam, etc. whose products are available at a relatively cheaper prices. As a result our share in the world export market is on declining side. This can be improved by minimizing cost of production of these items. Recently govt. has announced various measures to support this sector including duty draw backs, etc. In case of sports goods, major item export of football witnessed a decline of 9.7 percent against 7.2 percent decline in quantity terms showing that prices are not favourable in international market.

Export of carpets, rugs and mats registered a negative growth in value by 17.3 percent whereas its export quantity declined by 3.6 percent during July- March FY2017 compared to the same period last year suggesting that decline in international prices played the major role in fall in exports. Further, Pakistani exporter has lost the share in Turkey as a result of imposition of 42 percent additional custom duty on Pakistan's hand knitted carpet's import in Turkey. Further, in different FTAs concession list, handmade carpets were excluded and there is no demand for machine made carpets. Shortage of skilled labour force and failure to cope with the changing trends in world markets has affected the carpets demand and exports.

Surgical goods and medical instruments exports also witnessed a negative growth of 4.6 percent in value during July – March FY2017 over the same period last year. All the other items in this group also witnessed a declining trend during Jul-Mar, FY17.

The export of cement witnessed a decline of 23.0 percent in value and 20.0 percent in quantity during the period under review. Pakistan has lost a major share of its market to Iranian cement in Afghanistan, due to high cost of production, as Afghanistan is the biggest importer of Pakistani cement.

However, it is very encouraging that export on month on month in March of items in 'other manufacturing group' increased by 17.4 percent suggesting a reversal trend and government's initiatives have started giving results.

Monthly Exports

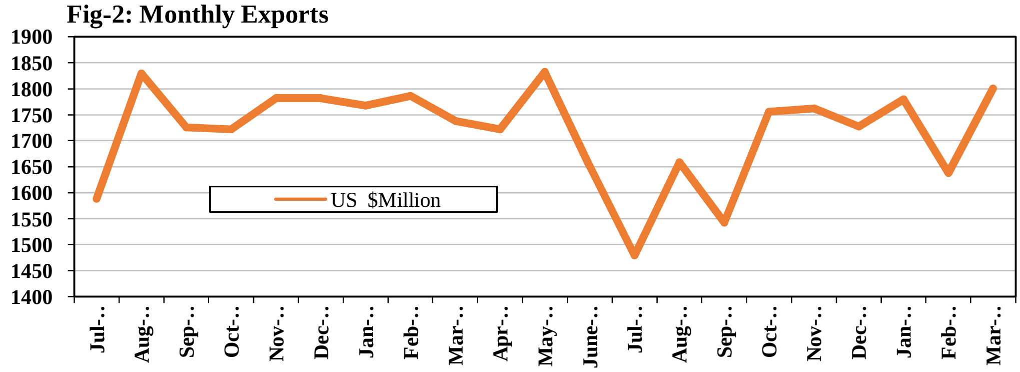
The monthly exports for the period July-March FY2017 remained mostly below the corresponding months of last year, averaging $ 1681 million per month as against an average of $1747 million last year. The exports are recovering in the third and fourth quarter, the negative effects of exports are bottoming out. As few months during July-March FY 2017 like October, January and March have growth of 2.0 percent, 0.4 percent and 3.2 percent, respectively on year on year basis. (See Table 8:2)

Table-8.2: Monthly Exports

Month	($ Million)	
	2015-16	2016-17 P
July	1588	1479.4
August	1830	1658.3
September	1726	1542.9
October	1722.1	1755.7
November	1781.9	1762.3
December	1781.9	1727.4
January	**1767.5**	**1779.7**
February	**1786.1**	**1637.8**
March	**1738.1**	**1800.7**
Monthly Average	**1747**	**1681**

Source: PBS
P : Provisional

Fig-2: Monthly Exports



Concentration of Exports

The composition of Pakistan's exports more or less remained same during 2016-17 compared to previous years showing high concentration in few items like cotton & cotton manufactures, leather, rice, and few more items. The first three categories of exports accounts for 71.8 percent of total exports during July-March FY2017 with cotton & cotton manufacture alone contributing 59.6 percent. Traditionally the contribution of these three categories was 71.6 percent during the same period last year, and 68.7 percent during FY 2015. The bifurcation of these items in Table 8.3 shows that exports in these few items are the major factor for lower export earnings.

Table 8.3 : Pakistan's Major Exports								(Percentage Share)
Commodity	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**July-March**	
							2015-16	**2016-17 P**
Cotton Manufactures	52.9	49.6	51.6	53.1	54.5	55.0	58.1	59.6
Leather**	4.4	4.4	4.7	5.1	4.8	4.9	4.7	4.5
Rice	8.7	8.7	7.8	7.6	8.5	8.8	8.8	7.7
Sub-Total of three Items	**66.0**	**62.7**	**64.1**	**65.8**	**67.8**	**68.7**	**71.6**	**71.8**
Other items	34.0	37.3	35.9	34.2	32.2	31.3	28.4	28.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

P : Provisional
**** Leather & Leather Manufactured.**
Source: PBS

Direction of Exports

Year wise major Pakistan's export destinations are mentioned in Table: 8.4 which represent that during Jul-Mar, 2016-17 period, no visible change occurred and our exports continued concentrated to the same markets. Efforts are being made to explore new markets specifically in ASEAN and Asian regions where a lot of potential exists.

Table -8.4 : Major Exports Markets												(Rs & US$. Billion & Percentage Share)
Country	**2014-15**			**2015-16**			**July-March**					
							2015-16			**2016-17 P**		
	Rs.	**US $**	**% Share**	**Rs.**	**US $**	**% Share**	**Rs.**	**US $**	**% Share**	**Rs.**	**US $**	**% Share**
USA	374.4	3.7	16	364.8	3.5	17	270.5	2.6	17	266.2	2.5	17
China	219.9	2.2	9	174.0	1.7	8	134.0	1.3	8	120.4	1.2	8
Afghanistan	198.8	2.0	8	149.9	1.4	7	116.0	1.1	7	91.0	0.9	6
United Kingdom	160.2	1.6	7	164.7	1.6	8	123.9	1.2	8	121.6	1.2	8
Germany	119.0	1.2	5	118.0	1.1	5	87.0	0.8	5	92.5	0.9	6
U.A.E	102.9	1.0	4	85.5	0.8	4	63.9	0.6	4	58.3	0.6	4
Bangladesh	70.7	0.7	3	72.3	0.7	3	55.7	0.5	3	49.8	0.5	3
Italy	67.6	0.7	3	67.7	0.6	3	48.6	0.5	3	50.4	0.5	3
Spain	81.7	0.8	3	84.3	0.8	4	62.0	0.6	4	63.3	0.6	4
France	38.2	0.4	2	36.0	0.3	2	25.5	0.2	2	27.9	0.3	2
All Other	**964.1**	9.5	**40**	**849.6**	8.2	**39**	**636.7**	6.1	**39**	**639.0**	6.1	**40**
Total	**2,397.5**	23.7	**100**	**2,166.8**	20.8	**100**	**1,623.8**	15.6	**100**	**1,580.4**	15.1	**100**

Source: Pakistan Bureau of Statistics
P : Provisional
Source: SBP , FY 2015 (US $ =Rs.101.29) , FY 2016 (US $ =Rs.104.23), (July-March FY 2016, (US $=Rs.104.09)), (July-March, FY 2017 (US $=Rs. 104.67))

Fig-8.3:Share of Export (Jul-Mar, FY2016)

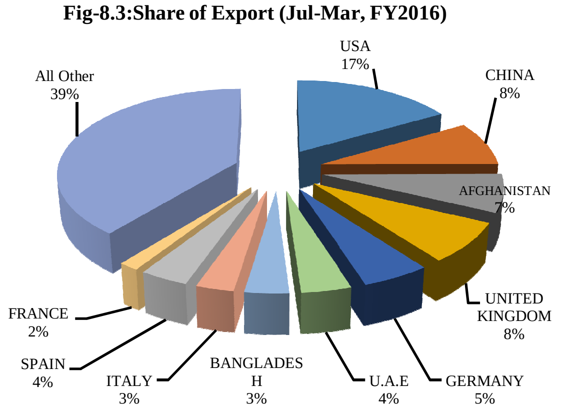
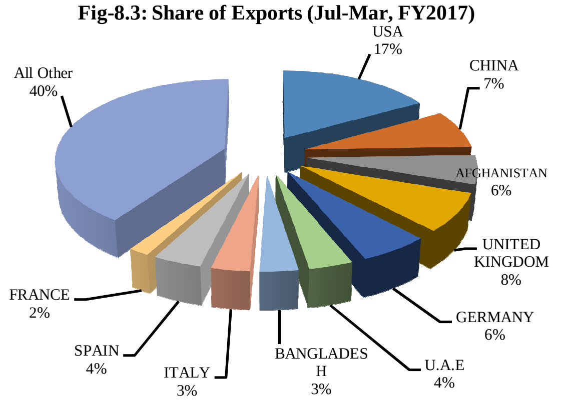


Fig-8.3: Share of Exports (Jul-Mar, FY2017)



Box-2: Evaluation of Pakistan's exports to European Union (EU) under the GSP Plus regime
Impact of GSP Plus on Pakistan's exports to EU

Pakistan duty free access granted by EU under its GSP+ Scheme, Pakistan's exports to EU have increased by 38% in 2016 over 2013. Pakistan's exports to EU have increased from 4.52 billion Euros in 2013 to 6.28 billion in 2016. Pakistan's exports of textiles to EU have increased by 55% during the same period. **(Euros billion)**

PARTNER/PERIOD	Pakistan's exports to EU in 2013	Pakistan's exports to EU in 2014	Pakistan's exports to EU in 2015	Pakistan's exports to EU in 2016	%age increase over 2013	%age increase over 2015
Pakistan	4.54	5.52	6.07	6.28	38.32	3.41

1. **Impact of GSP Plus on exports of Textile products to EU**

Textiles sector has been a major beneficiary of EU's GSP+ Scheme. Pakistan's exports of Textiles have increased by 55% in value terms in 2016 over 2013. Pakistan's exports also registered an increase of 33% in terms of quantity during the same period. The following table gives a breakdown of the sector wise exports from within the textiles.

Row Labels	Pak exports to EU (million Euros) 2013	Pak exports to EU (million Euros) 2014	Pak exports to EU (million Euros) 2015	Pak exports to EU (million Euros) 2016	%Increase over 2013(%)
Carpets and Rugs	30.30	31.57	37.16	37.92	25.16
Cotton and Intermediary Goods of Textiles	738.78	765.06	792.37	804.73	8.93
Home Textiles	980.03	1,270.86	1,456.29	1,563.05	59.49
Textile Garments and Hosiery	1,398.55	1,830.50	2,281.55	2,457.30	75.70

2. **Impact of GSP Plus on exports of Non- Textile sector**

Pakistan's exports of Leather products, Footwear and Plastics have also increased considerably as a result of duty free access under GSP+.

Row Labels	Pak exports to EU (million Euros) 2013	f Pak exports to EU (million Euros) 2014	Pak exports to EU (million Euros) 2015	Pak exports to EU (million Euros) 2016	Impact on Value since 2013 (%)
Footwear	56.29	72.93	77.38	70.86	25.88
Leather	418.54	460.02	470.86	446.49	6.68
Plastics	45.18	76.72	60.72	57.30	26.84

It is worth mentioning that Pakistani products shall continue to enjoy duty free access under EU's GSP Plus scheme in United Kingdom till March, 2019 when UK formally exits from EU.

Source: Ministry of Commerce

Imports

During current fiscal year, Jul-Mar period, Pakistan's imports are showing rising trend at a relatively faster rate (18.7 percent) due to the increased economic activity as part of China-Pakistan Economic Corridor (CPEC), particularly in the Energy sector. The construction projects under CPEC require heavy machinery that has to be imported. It is also observed that the economy is currently being led both by investments as well as consumption, resulting in relatively higher levels of imports.

The sharp increase in imports may not be a cause for major worry, the imports during the current fiscal year included around $12 billion of capital goods(machinery, metals etc.), which would eventually increase the country's industrial capacity and help exports flourish.

The increase in import of machinery will have multiplier effect on the economy as the manufacturing has the highest backward linkage among the major sectors. As the demand for manufacturing grows, it in turn will help in the creation of jobs, investments, and innovations.

Vibrant domestic construction, progress on mega infrastructure projects and CPEC related economic activities; all have contributed to a surge in demand for machinery and commercial vehicles during FY 2017. Pakistan's economy has been able to progress at a better pace due to technological enhancement and industrialization. There is a positive long term relationship between growth in imports of capital goods (machinery) and manufacturing sector growth of Pakistan.

The imports target for current financial year was set at $45.2 billion for FY2017. Pakistan imports bill recorded a growth of 18.7 percent in the first nine months of the current fiscal year, rising from $32,444.7 million during FY 2016 (July-March) to $38,503.8 million during Jul-Mar FY2017 showing an increase of $6059.2 million in absolute term.

Group-wise data on imports shows that except textile group which decreased marginally, all other groups like petroleum, transport and agriculture imports, food, machinery, textile and metal, imports recorded increase during July-March, FY2017. (Table 8.5)

Food group generally constitute around 12.0 percent of the total import bill. In the first nine months July-March FY2017, food group witnessed an increase of 15.0 percent and its import reached to US$ 4528.7 million during July-March, FY2017 from US$ 3939.6 million during comparable period last year. The edible oil (Soybeans & Palm) import bill, the heaviest item in food group, increased by 4.7 percent despite decline in quantity import by 8.5 percent reflecting a sharp surge in international palm oil prices. The increase in palm oil prices is due to significant reduction in production of Palm oil in Malaysia and Indonesia (as mainly Pakistan imports palm oil from these countries). The import bill of pulses also surged by 62.4 percent during the period under review mainly due to the low domestic production and higher international prices. (Table: 8.5)

The import bill of tea witnessed a slight increase of 1.84 percent, mostly because of remarkable fall in international prices as its imported quantity increased by 22.4 percent during Jul-March FY2017 compared to same period last year. Pakistan is largest importer and has highest per capita consumption of tea. Almost the entire tea demand is being met through imports from Kenya, India, Rwanda and Tanzania. However, milk products import bill decreased by 3.7 percent in value and its quantity increased by 25.1 percent during July – March FY2017 over the corresponding period last year suggesting again the lower international prices. (Table: 8.5)

Table 8.5: Structure of Imports ($ million)

	Particulars	July-March Values in Dollars		% Change in Value	July-March Quantity		% Change in Quantity
		2015-16	2016-17 P		2015-16	2016-17 P	
	Total	32,444.7	38,503.8	18.7			
A.	**Food Groups**	3,938.6	4,528.7	15.0			
	Milk & Milk food	193.3	186.0	-3.7	53,423	66,831	25.10
	Wheat Unmilled	0.0	0.0	0.0	0	0	0.00
	Dry Fruits	105.1	130.1	23.8	102,559	133,575	30.24
	Tea	403.9	411.4	1.8	133,335	163,136	22.35
	Spices	105.7	102.1	-3.4	111,713	120,976	8.29
	Edible Oil (Soybeans& Palm)	1,391.8	1,456.9	4.7	2,163,812	1,980,012	-8.49
	Sugar	5,041.0	3,949.0	-21.7	9,747	9,894	1.51
	Pulses	444.4	721.8	62.4	695,898	956,376	37.43
	Other food items	1,289.4	1,516.4	17.6			
B.	**Machinery Group**	4,321.9	6,465.0	49.6			
	Power generating Machines	1,341.1	2,367.0	76.5			

Table 8.5: Structure of Imports								($ million)
Particulars		July-March Values in Dollars		% Change in Value	July-March Quantity		% Change in Quantity
		2015-16	2016-17 P		2015-16	2016-17 P	
	Office Machines	231.6	371.6	60.4			
	Textile Machinery	332.1	401.1	20.8			
	Const. & Mining Machines	223.7	373.2	66.8			
	Aircrafts, Ships and Boats	474.1	331.2	-30.1			
	Agriculture Machinery	62.1	84.4	35.8			
	Other Machinery items	1,657.1	2,536.5	53.1			
C.	**Petroleum Group**	5,584.8	6,686.7	19.7			
	Petroleum Products	3,750.4	4,846.0	29.2	6,957,006	10,767,078	54.77
	Petroleum Crude	1,834.4	1,840.7	0.3	4,284,361	5916,854	38.10
D.	**Consumer Durables**	2,727.5	3,470.0	27.2			
	Road Motor Vehicles	1,407.2	1,811.2	28.7			
	Electric Mach. & Appliances	1,320.2	1,658.9	25.6			
E.	**Raw Materials**	5,714.1	5,610.9	-1.8			
	Raw Cotton	588.2	485.1	-17.5	325,134	283,648	-12.76
	Synthetic Fiber	368.9	346.1	-6.2	1,811,498	185,158	-89.78
	Silk Yarn (Synth &Arti)	468.0	486.4	3.9	211,489	247,303	16.93
	Fertilizer Manufactured	639.7	478.6	-25.2	1,392,391	1,532,671	10.07
	Insecticides	116.4	110.9	-4.7	13,769	12,806	-6.99
	Plastic Material	1,314.1	1,406.8	7.1	714,628	834,193	16.73
	Iron & steel Scrap	776.9	765.9	-1.4	2,861,196	2,861,196	0.00
	Iron & steel	1,441.9	1,531.0	6.2	2,493,953	2,493,953	0.00
F.	**Telecom**	1,046.8	1,028.8	-1.7			
G.	**All other items**	2,799.5	3,139.2	12.1			

P : Provisional
Source : PBS

Import of crude oil and petroleum products constitute 20.1 percent of total import bill of Pakistan and are second heaviest group in the import after machinery group. Import of Petroleum group including Liquefied Natural Gas, Liquefied Petroleum Gas and others surged by 27.5 percent US $ 7,748.9 million in July-March FY2017 as compared to US $ 6,078.8 million corresponding period last year. This increase was driven primarily by higher volumetric imports of furnace oil and high-speed diesel (HSD), due to higher demand from power and transportation sectors respectively. Rising imports of power generators also contributed to the increase in demand for HSD. Pakistan depends heavily on the oil as an input in industrial, transport and electricity sectors. The lack of refining capacity leaves Pakistan heavily dependent on petroleum product imports. Natural gas accounts for the largest share of Pakistan's energy use, amounting to about 50 percent of total energy consumption. Import of Liquefied Natural Gas (LNG) started since March 2016. This increased the import bill of Pakistan. Pakistan will be importing 3.0 billion cubic feet (bcf) of liquefied natural gas (LNG) per day by 2018 and therefore expected to bridge the demand supply gap.

Crude oil import in quantity terms increased by 38.1 percent and in value terms by 0.4 percent during July-March FY2017 as compared to same period last year suggesting that upto March, 2017, International crude prices witnessed declining trend as compared to same period last year. However, Import of petroleum products increased both in value and quantity by 29.2 percent and 54.8 percent, respectively.

The machinery group contributed about 23 percent in the total import bill. Import of Machinery group surged by 49.6 percent from, US$ 4,321.9 million in July – March FY2016 to

US$ 6,464.9 million in July–March FY2017 mainly due to the reasons described in preceding paras. Within this group, the import bill of textile machinery registered an increase of 20.8 percent (US$ 401.1million) during July-March FY2017 against (US$ 332.1 million) the same period last year suggesting increased activity in the textile sector which is a healthy sign and will give fruit in future. Import bill of power generating machinery recorded US $ 2,367.0 million during July – March FY2017 as compared to US $ 1,341.1 over the same period last year, showing an increase of 76.5 percent. Similarly a surge of 25.6 percent (US $ 1658.9 million) is witnessed in Electrical machinery & Apparatus during July – March FY017 over (US $1320.3 million) the corresponding period last year, Construction and mining machinery witnessed an increase of US $ 373.2 million in FY2017 as compared to US $ 223.7 million as compared to same period last year, reflecting an increase of 25.7 percent.

Telecom sector import within machinery group, declined by 1.7 percent (US $ 1028.8 million) during first nine months of the current fiscal year compared with (US $ 1046.8 million) the corresponding period last year. Mobile phones imports in Pakistan decreased by 8.5 percent during the current financial year 2017 (July-March) as compared to the same period last year. Total imports of mobile phones stood at US$ 524.4 million while these were US$ 573.3 million in the same period last year. Within machinery group, other sub items such as agricultural machinery witnessed a surge of 35.8 percent (US $ 84.4 million) during July-March, FY2017 over (US $ 62.1 million) the same period last year.(Table:8.5)

An increase of 19.4 percent is witnessed in import bill of transport group from US$ 1919.6 in July-March, FY2016 to US$ 2292.1 in July-March, FY2017. Import of road motor vehicles increased by 28.7 percent, CKD/SKO increased by 20.9 percent, buses increased by 23.5 percent and motor cars increased by 26.6 percent, during the first nine months of current fiscal year over corresponding period last. The demand for CKD/SKD kits, parts and accessories all used in locally assembled vehicles increased during this period. Rising imports of auto parts suggests better sales of locally assembled vehicles in the future as the industry imports kits and accessories based on advance booking orders and increased demand for vehicles.(Table:8.5).

Import of all other important items in the transport group also registered an increasing trend except import of aircraft, boats and ships which were down by 30.1 percent during July-March, FY2017 over the same period last year.

In textile group, import of raw cotton witnessed a decrease both in quantity and value by 12.8 percent and 17.5 percent respectively, during July-March FY2017 as compared to same period last year on account of higher local production of cotton.

Within agricultural and other chemical group a remarkable decline of 25.2 percent is observed in fertilizer manufactured import bill despite an increase of 10.1 percent in quantity imported during July-March FY2017 as compared to corresponding period last year suggesting lower international prices.

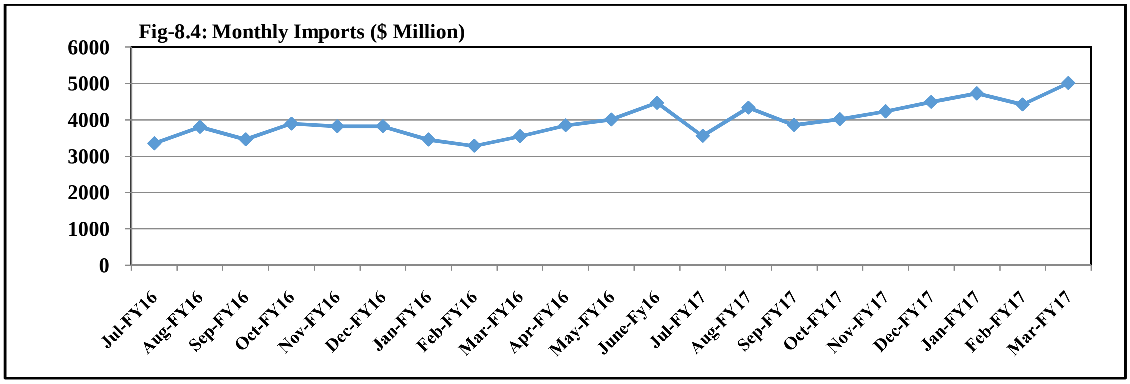
Metal group bill also surged by 6.2 percent during July-March, FY2017 over the same period last year. Import of Iron & steel increased by 6.2 percent due to the ongoing construction activity on the back of higher PSDP spending which has increased the demand for imported iron and steel products. Most of the items imported this year included coils and line pipes. The higher demand for coils and line pipes came from the automobile industry as well as from increased investments in the gas distribution infrastructure.

Monthly Imports

The monthly imports during July-March FY2017 witnessed rising trend. Import averaged $4,292 million per month. On average the monthly import increased by US $ 690 million per month. The monthly imports are in Table 8.6.and Fig-.8.3

Table 8.6 Monthly Imports		($ million)
Month	**2015-16**	**2016-17 P**
July	3347.6	3556.9
August	3802	4331.2
September	3461	3857.5
October	3894	4013
November	3817.3	4230.5
December	3817.3	4488.3
January	3455.1	4723.8
February	3280.4	4419
March	**3547.1**	**5009.2**
Monthly Average	**3,602.4**	**4,292.2**

P: Provisional
Source : PBS



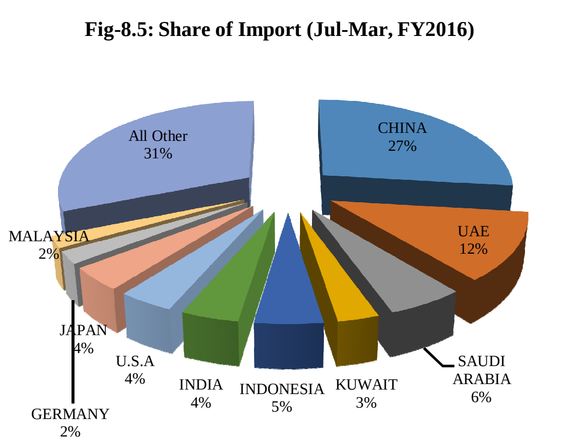
Direction of Imports

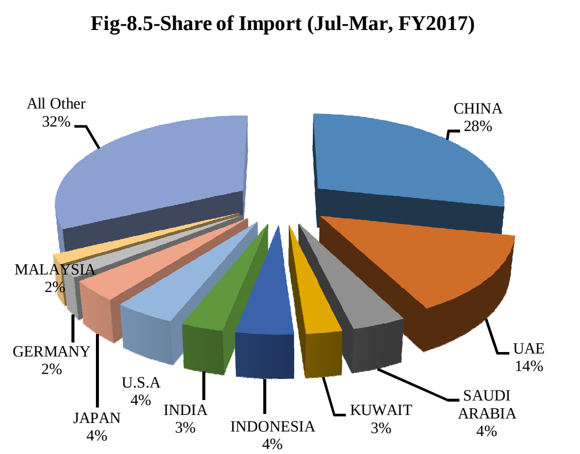
Pakistan imports from countries like China, Saud Arabia, UAE, and Indonesia constitutes around 50 percent of the total imports. During current fiscal year share of imports from China has increased from 27 percent in last fiscal year to 28 percent during Jul-March 2016-17. However share of import from Saudi Arabia, has fallen by 2 percent during July-March 2016-17 as compared to same period last year due to lower crude oil bill. Change in Pakistan's import pattern in subsequent years is shown in (Table 8.7, Fig 8.4)

Table 8.7 : Major Import Markets (Rs & $ Billion & Percentage Share)

Country	2014-15			2015-16			July-March 2015-16			July-March 2016-17 P		
	Rs.	US $	% Share	Rs.	US $	% Share	Rs.	US $	% Share	Rs.	US $	% Share
China	1,053.0	10.4	23	1261.9	12.1	27	908.9	8.7	27	1,140.1	10.9	28
UAE	681.9	6.7	15	572.7	5.5	12	407.9	3.9	12	561.9	5.4	14
Saudi Arabia	365.5	3.6	8	237.2	2.3	5	187.1	1.8	6	157.5	1.5	4
Kuwait	250.9	2.5	5	139.5	1.3	3	101.5	1.0	3	105.7	1.0	3
Indonesia	209.6	2.1	5	222.7	2.1	5	164.0	1.6	5	167.4	1.6	4
India	172.2	1.7	4	185.8	1.8	4	139.2	1.3	4	122.3	1.2	3
U.S.A	180.7	1.8	4	185.3	1.8	4	135.6	1.3	4	178.7	1.7	4
Japan	170.6	1.7	4	190.3	1.8	4	138.1	1.3	4	149.6	1.4	4
Germany	97.5	1.0	2	97.6	0.9	2	74.7	0.7	2	77.4	0.7	2
Malaysia	96.3	1.0	2	96.5	0.9	2	69.8	0.7	2	69.0	0.7	2
All Other	**1,366.0**	13.5	**29**	**1,469.2**	14.1	**32**	**1,051.1**	10.1	**31**	**1,289.0**	12.3	**32**
Total	**4,644.2**	45.9	**100**	**4,658.7**	44.7	**100**	**3,377.9**	32.5	**100**	**4,018.6**	38.4	**100**

Source: Pakistan Bureau of Statistics
Source: SBP , FY 2015 (US $ =Rs.101.29) , FY 2016 (US $ =Rs.104.23), (July-March FY 2016, (US $=Rs.104.09)), (July-March, FY 2017 (US $=Rs. 104.67))





Balance of Payments

During July-March FY2017, the increase in imports of capital equipment and fuel significantly put pressure on the external account. A reversal in global oil prices led to increase in POL imports, accompanied by falling exports, as a result the trade deficit grew by 33.1 percent to US$ 17.8 billion in July-March FY2017. While remittances and Coalition Support Fund inflows both declined slightly over the same period last year, however, the impact was offset by an improvement in the income account, mainly due to lower profit repatriations by oil and gas firms. The current account deficit increased to US$ 6.1 billion in July-March FY2017, against US$ 2.4 billion in July-March FY2016.

However, the impact of high current account deficit on foreign exchange reserves was not severe, as financial inflows were available to the country to partially offset the gap; these inflows helped ensure stability in the exchange rate. Net FDI grew by 12.4 percent and reached US$ 1.6 billion in the nine-months period, whereas net FPI saw an inflow of US$ 631 million, against an outflow of US$ 393 million last year. Encouragingly for the country, the period saw the completion of multiple merger and acquisition deals between local and foreign companies. Moreover, multiple foreign automakers announced their intention to enter the Pakistani market, and some also entered into joint ventures with local conglomerates. This indicates that Pakistan is clearly on foreign investors' radar, and provides a positive outlook for FDI inflows going forward. The government's successful issuance of a US$ 1.0 billion Sukuk in the international capital market, at an extremely low rate of 5.5 percent.

Besides, Pakistan continued to enjoy support from international financial institutions (IFIs) like the World Bank and Asian Development Bank, and from bilateral partners like China, in the post-EFF period: net official loan inflows of US$ 1.1 billion were recorded during the period. As a result, the country's FX reserves amounted to US$ 20.8 billion by May 04, 2017, sufficient to finance around four months of import payments.

Table 8.8: Summary Balance of Payments US $ Million

Items	July-June		July-March P	
	2014-15	2015-16	2015-16	2016-17
Current Account Balance	-2709	3394	-2351	-6,130
Trade Balance	-17,278	-18,585	-13,443	-17,841
Goods: Exports	24089	21965	16,320	16,101
Goods: Imports	41,367	40,550	29,763	33,942
Service Balance	-2,884	-2,870	-1,958	-1,920
Services: Credit	5,854	5,438	4,070	4,322

Table 8.8: Summary Balance of Payments				US $ Million
Items	July-June		July-March P	
	2014-15	2015-16	2015-16	2016-17
Services: Debit	8738	8308	6,028	6,242
Income Account Balance	-4581	-5322	-3850	-3187
Income: Credit	679	637	427	531
Income: Debit	5260	5959	4,277	3,718
Current Transfers Net	22040	23383	16,900	16,818
Of which:				
Workers' Remittances	18721	19917	14,388	14,058
Capital Account	375	273	213	260
Financial Account	4996	5605	3,372	4,806
Direct Investment in Pakistan	923	1904	1425	1,601
Portfolio Investment in Pakistan	1884	-429	-408	659
Other Investment Liabilities	2173	4176	2084	3,926
Net Errors and Omissions	-16	168	-90	-550
Overall Balance	2646	2652	1144	-1614

Source: State Bank of Pakistan

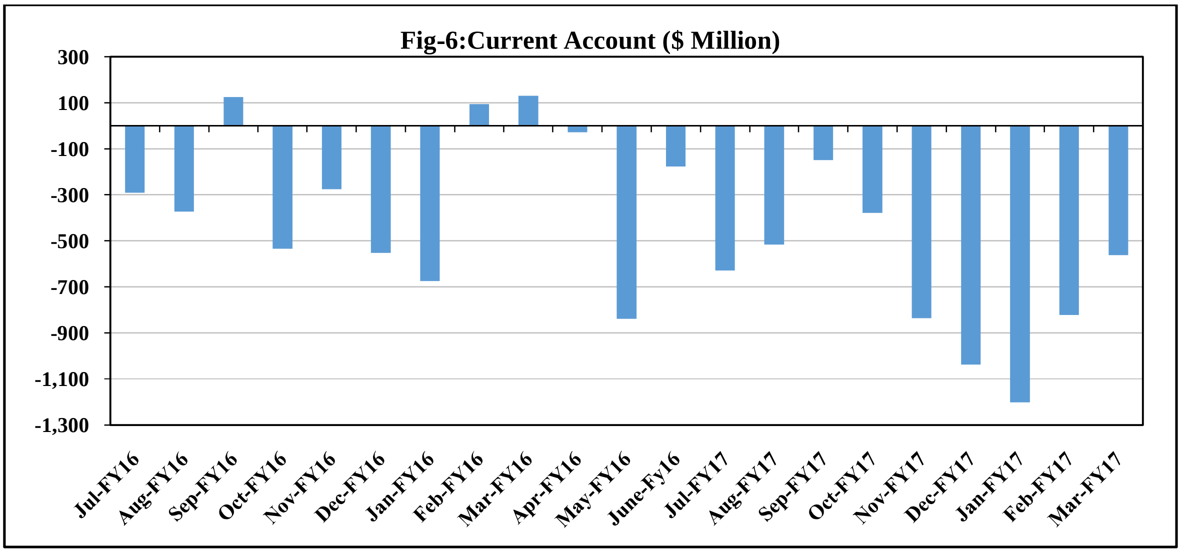
P: Provisional

Current Account

The current account deficit reached to US$ 6.1 billion (2.0 percent of GDP) during July-March FY2017. This was mainly due to a 33.1 percent widening in the trade deficit, which amounted to US$ 17.8 billion. The widening of trade deficit is mainly due to surge in import bill by 14.2 percent and reached to US $ 33.9 billion and the export decline was contained to US$ 221 million (dropped by 1.4 percent) during July-March FY2017 as compared to same period last year. The non-POL product import bill US $ 23.1 billion with share of 77.1 and POL product with share of 22.9 percent reached to US $ 7.8 billion.

On year on year 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 surge in machinery and POL imports bodes well for overall economic activity.



In the services account, the deficit remained almost unchanged at US$ 2.0 billion in July-March FY2017, despite much lower realization of CSF (US$ 550 million, against US$ 713 million in July-March FY2016). Exports of telecom and travel services improved during July-March FY2017 as against same period last year.

The income account deficit improved by 0.2 percent and reached to US$ 3.2 billion in July-March FY2017, mainly due to lower repatriation of mineral proceeds by oil and gas firms in the country.

Workers' Remittances

The remittances reached to US$ 14.1 billion during July-March FY2017 as compared to US$14.387 billion and registered a negative growth of 2.3 percent as compared to last year. Year on year basis remittances inflow dropped marginally by only 1 percent, however on month on month basis March-February, about 20 percent of decent increase is recorded. The trend will continue in coming months and is expected that the target of US$ 20.2 billion for FY 2017 is likely to be achieved.

The major share of remittances orginate from Saudi Arabia 29.01 percent (US $ 4078.07 million), U.A.E 22.23 percent (US $ 3124.40 million), USA 12.3 percent (US $ 1729.60 million) ,other GCC countries 12.14 percent (US $ 1706.04 million), U.K 11.77 (US $ 1655.06 million) , EU 2.37 percent (US $ 332.54 million) and other countries 10.19 percent. The remittances during July-March FY2017 have declined by 6.23 percent from Saudi Arabia , 2.5 percent from UAE, 8.5 percent from United Kingdom, 3.8 percent from other GCC countries, and 6.9 percent from USA, while from other countries and EU countries it increased by 29.17 percent, 16.29 percent , respectively compared to same period last year.

However, during Jul-March FY 2017, remittances declined due to inflows drop from all three major corridors- the Gulf Cooperation Council, US and UK. Decline in remittances from Saudi Arabia along GCC was on account of slow economic activities in these countries along with fiscal consolidation due to decline in oil prices. Due to seasonal factors like Ramadan and Eid the flow of remittances increased as worker remit more money due to which remittances declined in first quarter. This will be offset by growth in remittances during coming months.

For the US, it was the tightening regulatory environment for anti-money laundering and counter-financing of terrorism (AML/CFT) that has contributed to lower inflows. The main reason for the decline from the UK was the pound's depreciation against the US Dollar following the Brexit vote on June 23, 2016; this had led to a significant drop in the dollar value of remittances sent from the UK.

However, the development activities under Saudi Arabia's vision 2030 which provides a roadmap for Kingdom's development and economy for next 15 years, the FIFA world Cup 2022 in Qatar and Expo 2020 in Dubai will create more labor demand. Pakistan Remittance Initiatives (PRI) is encouraging banks to increase their outreach efforts to ensure that the cost of remitting funds to Pakistan stays affordable. The recent visit of Prime Minister to Kuwait will be helpful in opening new avenues of employment. These developments are likely to keep remittances inflow close to last year's level.

Fig-7:Worker's Remittance (Jul-Mar, FY2017)

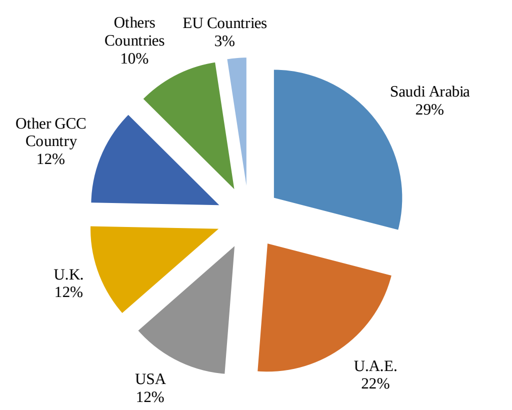
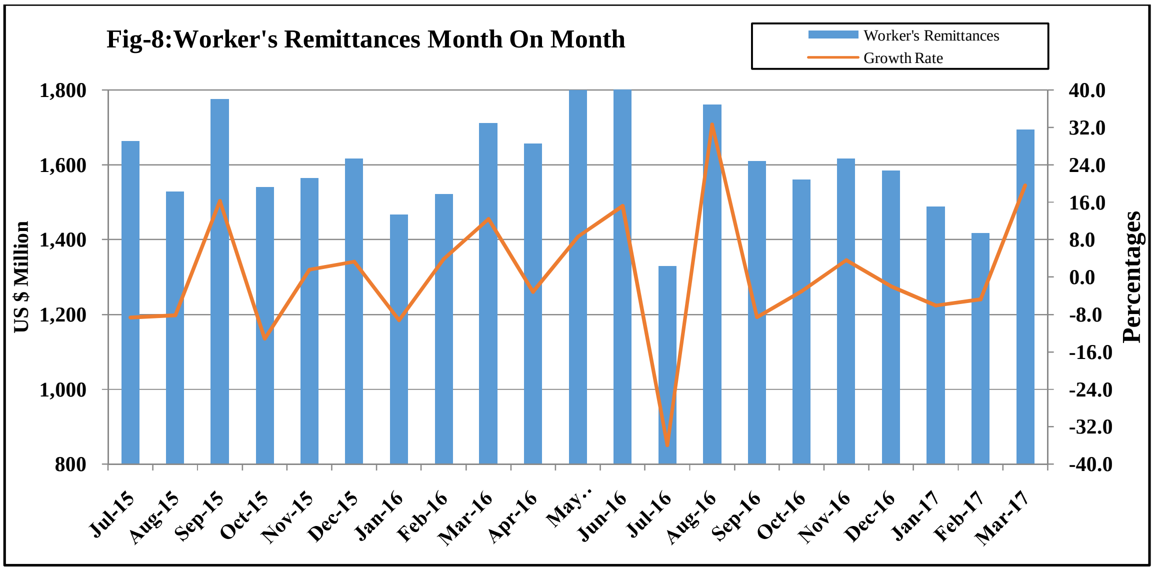


Table 8.10: Country/Region Wise Cash Worker's Remittances

Country/Region	July-March		($ billion)	
	2015-16	2016-17	% Change	Share
Saudi Arabia	4.35	4.08	-6.23	29.01
U.A.E.	3.20	3.12	-2.47	22.23
USA	1.86	1.73	-6.94	12.30
U.K.	1.81	1.66	-8.46	11.77
Other GCC Country	1.77	1.71	-3.84	12.14
Others Countries	1.11	1.43	29.17	10.19
EU Countries	0.29	0.33	16.29	2.37
Total	14.39	14.06	-2.29	100.00

Source : State Bank of Pakistan



Capital & Financial Account

The capital and financial accounts recorded a surplus of US$ 5.1 billion in July-March FY2017, which was significantly higher than the surplus of US$ 3.6 billion recorded in July-March FY2016.Foreign investment picked up pace from last year's levels, with both direct and portfolio investment contributing to the gains. Net FDI inflows rose 14.8 percent to US$ 1.6 billion in July-March FY2017, against US$ 1.4 billion same period last year. While China continued to have a major share (accounting for 37.1 percent of overall inflows), significant FDI from other countries like the Netherlands and France has also witnessed this year.

In terms of sectors, the food group attracted the highest net FDI of US$ 471.1 million which also includes acquisition of 51 percent share in Engro Food by Netherland's based company which was finalized in December 2016. The power sector received the second-highest inflows of US$ 389.3 million, in-line with CPEC-related sectoral activity. Similarly, as infrastructure projects under CPEC also proceed, the construction sector saw net FDI of US$ 264 million.

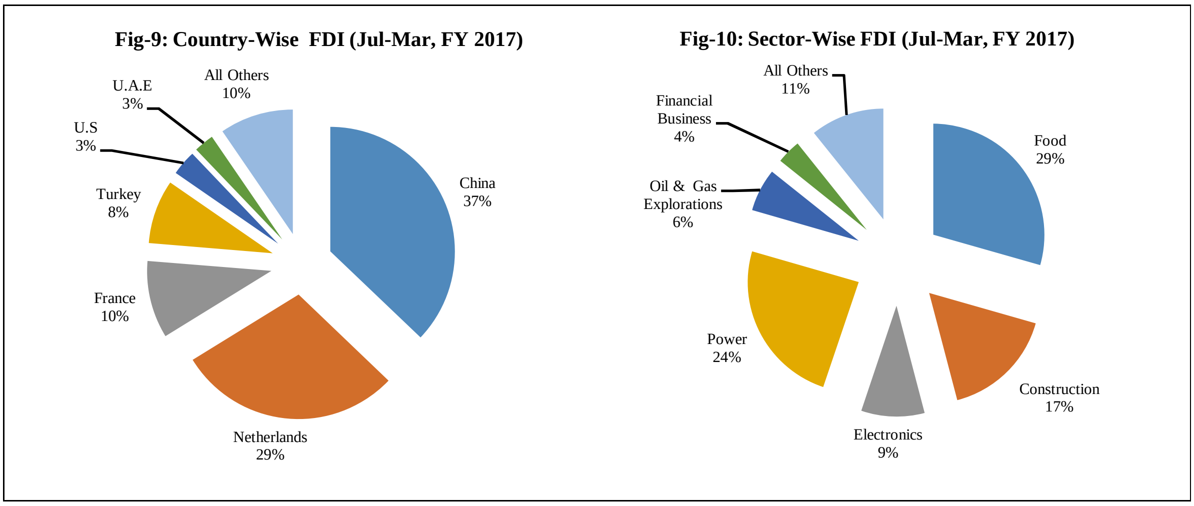
In portfolio investment, net inflows amounted to US$ 631 million in July-March FY2017, against an outflow of US$ 393 million recorded in the same period last year. The government successfully issued US $ 1.0 billion in international capital markets at very competitive rate in October

2016. However, private portfolio investment witnessed an outflow, as worldwide capital increasingly turned to the US in expectation of higher growth due to November 2016 elections. Many emerging market economies including Pakistan during September 2016-January 2017 saw capital outflows.

Table 8.10: Foreign Investment ($ million)

	FY2015	FY2016 R	July-March	
			FY2016 R	FY2017 P
A. Foreign Private Investment	1,840.2	1,584.1	1075.2	1,239.9
Foreign Direct Investment	922.9	1,903.7	**1425.2**	**1,610.6**
Inflow	2732	2,763.6	2114.4	1,889.9
Outflow	1,809.1	859.9	689.2	288.4
Portfolio Investment	917.3	-319.6	-350	-361.6
Equity Securities	917.3	-319.6	-350	-361.6
Debt Securities				
B. Foreign Public Investment	927.1	-8.8	**-43.7**	**992.5**
Portfolio Investment	927.1	-8.8	-43.7	992.5
Total Foreign Investment (A+B)	2,767.3	1,575.2	**1031.5**	**2,232.5**

Source: State Bank of Pakistan



Reserves and Exchange Rate

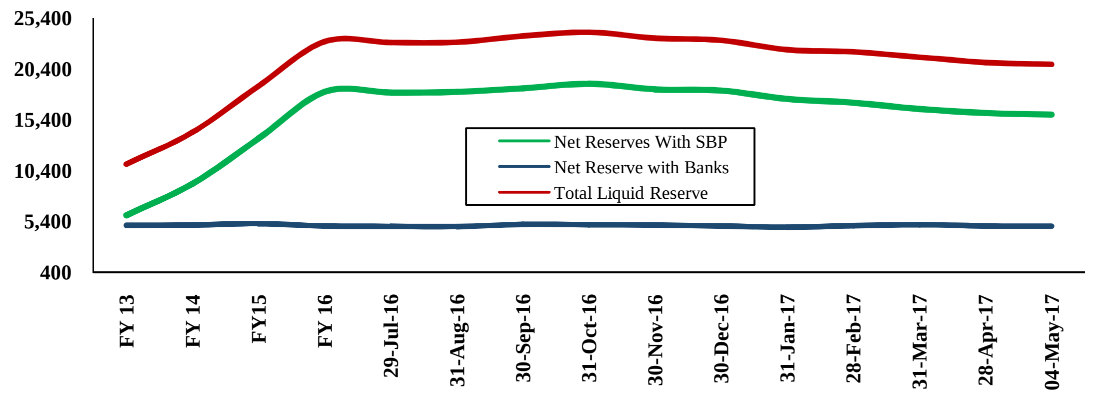
With the current account deficit widening and not being fully offset by financial inflows, the country's total liquid FX reserves as on end-March FY2017, declined to US$ 21.57 billion of which SBP US$16.47 billion and Commercial Banks US$ 5.10 billion. In October, FY2017 foreign currency reserves hit all time high at $ 24.03 billion, of which net reserves with SBP were $18.93 billion and scheduled banks $ 5.10 billion. The level of foreign exchange reserves is a sign of economic stability that has been achieved due to the deep-rooted and comprehensive economic policies and reforms undertaken by the present government. Currently, foreign exchange reserves are at reasonable level.

The average exchange rate during July-May 04 FY2017, at 104.79 to a dollar, was down marginally (0.5 percent) against last year's comparable average of 104.30. The stability in the exchange rate was a result of the still elevated level of liquid reserves available with SBP; this helped keep interbank sentiments in control during the period under review.

Table-8.11:Liquid Foreign Exchange Reserve (Billion US $)			
End Period	Net Reserves With SBP	Net Reserves with Banks	Total Liquid Reserves
FY 12	10.80	4.49	15.29
FY 13	6.01	5.01	11.02
FY 14	9.10	5.04	14.14
FY 15	13.53	5.17	18.70
FY 16	16.63	4.83	21.46
July'16	18.06	4.92	22.98
August'16	**18.12**	**4.89**	**23.02**
September'16	**18.49**	**5.12**	**23.61**
October'16	**18.93**	**5.08**	**24.00**
November'16	18.37	5.05	23.42
December'16	18.26	4.95	23.20
January'17	17.42	4.84	22.26
February'17	17.08	4.98	22.06
March'17	16.47	5.10	21.57
April'17	16.06	4.94	21.00
May'17*	15.90	4.92	20.82

***: May 04, 2017**
Source: SBP

Fig-11:Foreign Exchange Reserves (US $ Million)



Conclusion

Recession in advanced economies, impediments at structural institutional and entrepreneurship both exogenous and endogenous factors are responsible of stagnant exports. However the resolve of the government to improve the exports and in this connection a number of initiatives have been taken. As a result, the negative effects of exports are bottoming out and visible improvements in recent months have been witnessed. The imports however continued to grow at a much faster rate and grew by a large percentage of 18.7. The surge in imports are mainly due to capital goods (machinery, metals etc.), which would eventually increase the country's industrial capacity and help exports flourish in the coming years.

Financial account balance increased by 42.5 percent during July-March, FY2017 on the back of improvement in FDI by 12.4 percent and Foreign Portfolio Investment increased by 260 percent. Going forward one can expect improvement in overall external position of Pakistan due to present government initiatives for export promotion, efforts to improve Pakistan business climate, ease of doing business strategy and improved macroeconomic fundamentals.