Chapter 8

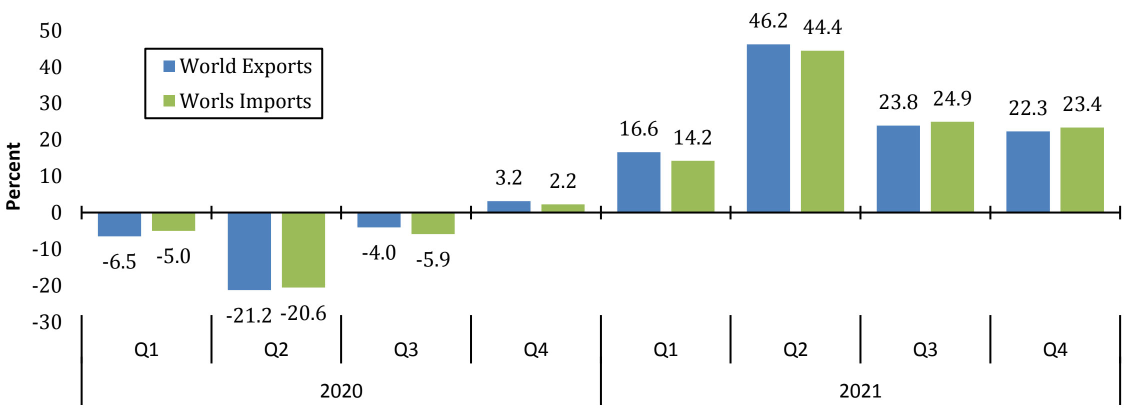
Trade and Payments

Introduction

The global economy has faced multiple headwinds during Jul-Mar FY2022. The post-COVID growth rebound had contributed to higher consumer demand for many products and commodities, thereby stressing supply chains and leading to a commodity price 'super cycle'. From late February 2022 onwards, geopolitical tensions between two major commodity producers – Russia and Ukraine – significantly added onto the commodity price spiral, pushing up prices of energy and food commodities even further. Just as the higher commodity prices were pressuring external accounts of emerging markets (EMs), higher inflation outturns in the US and other advanced economies resulted in central banks adopting a tightening monetary policy stance.

The revival of global economic activity in the first half of 2021 has boosted merchandise trade over its pre-pandemic peak, as global merchandise trade volume has increased by 9.8 percent in 2021. The global trade grew by 26 percent and reached US$ 22.4 trillion, while services trade grew by 15 percent and reached US$ 5.7 trillion. World merchandise trade volume is projected to grow by 3.0 percent in 2022 and 3.4 percent in 2023 provided the Ukraine-Russia war does not expand further. Fig 8.1 depicts the growth pattern of global merchandise trade.

Fig:8.1 Growth in Global Merchandise Trade



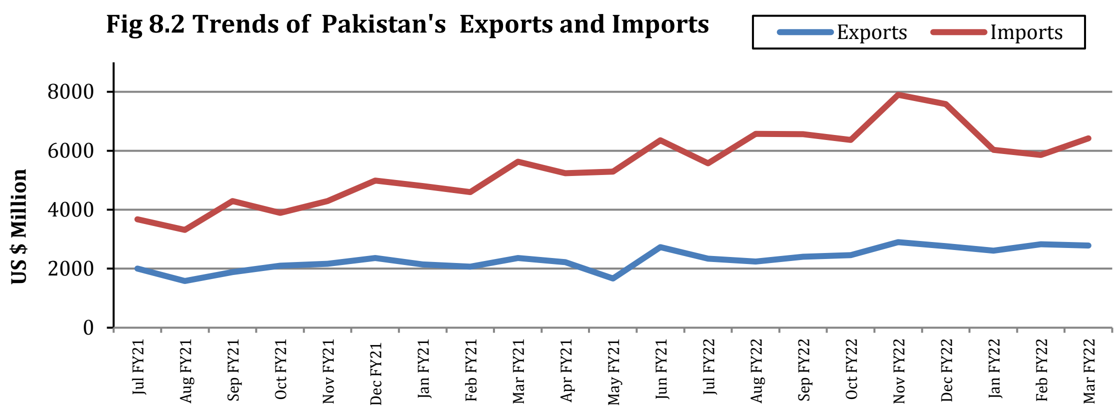
Source: WTO

Pakistan External Sector Performance

As COVID-19 disrupted economic activity worldwide. Thus, in Pakistan, after a slight contraction of real GDP in FY2020, Pakistan's economy rebounded in FY2021 and FY2022. Many policy measures were initiated to support export-oriented industries and facilitating these firms to increase export earnings.

During Jul-Mar FY2022, goods exports grew by 26.6 percent and amounted to US$ 23.7 billion, whereas services exports grew by 17.1 percent and amounted to US$ 5.1billion. Despite the encouraging export performance, the country's imports have also risen significantly. The broad-based surge in global commodity prices, COVID-19 vaccine imports, and demand-side pressures, all contributed to the rising imports. Resultantly, trade deficit grew by 55.5 percent amounted to US$ 30.1 billion which is historically high. Remittances which always supported in easing out pressure of trade deficit of both goods and services recorded at US$ 22.9 billion during Jul-Mar FY2022 and posted a growth of 7.1 percent. This ever-highest level of workers remittances was not sufficient to offset trade deficit. Thus, current account deficit recorded at US$ 13.2 billion during FY2022. Further, low performance of financial account during the period not only resulted in depletion of foreign reserves but also brought exchange rate under pressure.

Fig 8.2 Trends of Pakistan's Exports and Imports



Source: PBS

Exports

Due to pro-business measures and recent rupee depreciation, (as per PBS data) exports marked an impressive growth of 25.0 percent during Jul-Mar FY2022 amounting to US$ 23.3 billion as compared to US$ 18.7 billion in the same period last year. Around two-thirds of the increase came from the textile sector, especially from the high value-added segment. Pakistan's textile exporters capitalized on the policy support available – including the SBP's concessionary refinance schemes for working capital and fixed investment, and the regionally competitive energy tariffs – and managed to ship higher volumes to key destinations (such as the US, UK and EU). Higher cotton prices also helped to increase the export unit prices both low and high value-added textile products. Apart from textiles, rice exports also rebounded during Jul-Mar FY2022, mainly due to the non-basmati variety.

Measures to Boost Export

The economy had stabilized after the lifting of lockdowns at the start of FY2021, various policy measures were taken to support industrial activity and resume the growth momentum. The policy incentives taken to increase exports included:

- Supply of energy to export oriented sectors including textile at regionally competitive rates i.e. electricity at US cents 9/kWh all- inclusive and RLNG at US$ 6.5/MMBtu all- inclusive during FY 2022. However existing tariff of US$ 6.5 /MMBtu for Captive Power (self-power generation) revised to US$ 9/MMBtu w.e.f.15.11.2021 to 31.03.2022.
- Release of Rs 16 billion under Duty Drawback of Taxes and Levies (textiles & non-textile) till third quarter of FY2022.
- Continuation of duty-free import of textile machinery to encourage investment in the textile sector and enhance capacities
- **Enhancement in coverage and loan limits under LTFF**: The SBP opened up LTFF for all sectors (as per Export Policy Order of MOC, as amended from time to time) in January 2020. To encourage new projects, the SBP doubled the maximum loan size for a single project to Rs 5 billion from Rs 2.5 billion. Subsequently, the SBP reduced the mark-up rate on LTFF for non-textile firms to 5 percent, aligning the rates charged to textile firms.
- **Introduction of incentives for exporters to bring FX proceeds in timely manner**: In February 2022, the SBP allowed Rupee-based discounting of export bills for exporters availing Exports Finance Scheme (EFS), at very attractive rates. The FX proceeds being discounted have to be converted and sold in the interbank at the time of discounting. The measure is expected to encourage timely arrival of FX proceeds into the interbank market, and also facilitating exporters to retain access to concessionary working capital.
- **Changes in FX regulations to facilitate exports**: The SBP introduced a range of changes to FX regulations, to simplify export procedures and encourage diversification in the country's exports of goods and services. To facilitate exporters, particularly SMEs, to sell to customers worldwide via digital/online platforms (including Amazon, eBay, etc), the SBP introduced a new framework for exports under business-to-business-to-consumer (B2B2C) mechanism. The SBP also updated regulations to facilitate exports of information and communications technology (ICT), including from freelancers, and to help start-ups attract foreign investment.
- To facilitate micro small and medium businesses, an e-Taijarat portal is developed and launched on 21st February 2022. The portal will provide the freelancers educational opportunities and marketplace opportunities to help them grow and flourish as business owners.

In line with the objectives of the National Tariff Policy (2019-2024), tariffs on different items are rationalized during Jul-Mar FY2022. Details are given below:

i) Addressed the tariff anomalies identified during the budget exercise for the Financial Year 2021-22, and subsequently rationalized Customs Duty (CD), Additional Customs Duty (ACD) and Regulatory Duty (RD) on different tariff lines.

ii) Addressed tariff anomaly under SRO 655 (1)/2006 by the removal/reduction of ACD for vendors and on the import of Heavy Commercial Vehicles in CKD condition.

iii) The tariff rationalization in the Auto sector are as follows:

   a) Imposition of 10 percent RD on import of EVs in Complete Built Unit (CBU) Condition of more than 50 KWH battery pack excluding commercial buses and trucks.

   b) RD on import of all type of Hybrid vehicles in CBU condition, exceeding 1500cc but not exceeding 1800cc, would be increased from 15 percent to 50 percent.

   c) RD on import of vehicles having spark/compression ignition engine (conventional engines) in CBU condition exceeding 850cc but not exceeding 1800cc, would be increased from 15 percent to 50 percent.

   d) The matter regarding increase in FED rate, from current 5 percent to 10 percent, on locally assembled/manufactured cars/SUVs, etc. as well as on import in CBU condition, of above 1500cc.

iv) Examined the tariff structure on the import of key products from Afghanistan to facilitate and support economic stability in Afghanistan. Tariff Policy Board (TPB) has approved reduction/removal in CD, ACD and RD on 11 items.

Box-I: Export Facilitation Scheme, 2021

Federal Board of Revenue has notified rules for new Export Facilitation Scheme (EFS) 2021 which is effective since 14th August, 2021 This Scheme runs parallel with existing schemes like Manufacturing Bond, DTRE and Export Oriented Schemes till August, 2023. Rules of EFS 2021 can be accessed at official website of FBR.

Users of this Scheme include Exporters (Manufacturers cum Exporters, Commercial Exporters, Indirect Exporters), Common Export Houses, Vendors and International Toll Manufacturers. Users of this Scheme are subject to authorization of inputs by the Collector of Customs and Director General Input-Output Organization (IOCO). Inputs include all goods (imported or procured local) for manufacture of goods to be exported. These include raw materials, spare parts, components, equipment, plant and machinery. No duty and taxes are levied on inputs imported by the authorized users and local supplies of inputs to the authorized users are zero rated. Through this new Scheme, Common Export House can import inputs duty and tax free for subsequent sale to the authorized users especially SMEs. This Scheme also allows International Toll Manufacturing within Pakistan. Under the said scheme, minimum but necessary documentation and securities based on category and profile of the applicant, user or exporter are required. This scheme encourages new entrants and SMEs. This Scheme is completely automated under WeBOC and PSW where users of the Scheme and regulators (IOCO, Regulator Collector, PCA etc.) are integrated through WeBOC and PSW and communicate through these systems. The focus of the Scheme is on post clearance compliance checks and audits.

Since its inception, the response to EFS is encouraging and so far, 29 new units have opted for EFS besides switching over to EFS from existing schemes which include 11 from Manufacturing Bond Scheme, 9 from DTRE Scheme and 4 from Export Oriented Units. It is expected that EFS 2021 shall reduce cost of doing business and cost of tax compliance, improve ease of doing business, reduce liquidity problems of exporters by eliminating Sales Tax refunds and Duty Drawback for the users of Scheme and shall attract more users and shall ultimately promote exports.

Source: Federal Board of Revenue

Performance of Merchandised Exports

Analysis of group wise data suggests that all groups of exports registered an impressive growth (Table 8.1). Food group increased by 18.9 percent and reached US$ 3.9 billion during Jul-Mar FY2022 as against US$ 3.3 billion to the same period last year. Within the food group, rice exports increased both in quantity and value by 22.8 percent and 15.0 percent, respectively. Exports of rice were recorded at US$ 1.8 billion during Jul-Mar FY2022 as compared to US$ 1.5 billion same period last year.

Table 8.1: Structure of Exports

Particulars		Units	July-March Values in US$ million			July-March Quantity		% Change in Quantity
			2020-21	2021-22 (P)	% Change	2020-21	2021-22 (P)	
	Total		18687.2	23354.9	25.0			
A.	**Food Group**		3331.3	3961.5	18.9			
	Rice	M.T	1560.4	1793.9	15.0	2883013	3540090	22.8
	Sugar	M.T	0.0	0.0		0	0	
	Fish & Fish Preparation	M.T	303.8	310.0	2.0	136352	116514	-14.5
	Fruits	M.T	378.6	394.5	4.2	829369	514516	-37.9
	Vegetables	M.T	245.7	248.4	1.1	700518	703172	0.4
	Wheat	M.T	0.0	0.0		0	0	
	Spices	M.T	70.5	83.3	18.0	17940	20218	12.7
	Oil Seeds, Nuts & Kernels	M.T	76.3	176.7	131.4	68945	130138	88.8
	Meat & Meat Preparation	M.T	247.0	249.9	1.2	72467	56732	-21.7
	Other Food Items		424.1	665.3	56.9			
B.	**Textile Manufactures**		11355.5	14242.6	25.4			
	Raw Cotton	M.T	0.6	6.6	1009.1	499	2752	451.5
	Cotton Yarn	M.T	721.2	908.5	26.0	293161	260284	-11.2
	Cotton Cloth	TH.SQM	1419.2	1795.5	26.5	314562	342700	8.9
	Knitwear	TH.DOZ	2780.9	3729.7	34.1	127104	120946	-4.8
	Bedwear	M.T	2052.3	2448.9	19.3	343436	394996	15.0
	Towels	M.T	692.1	819.6	18.4	158914	167009	5.1
	Readymade Garments	TH.DOZ	2268.4	2863.6	26.2	27845	37293	33.9
	Made-up articles		565.7	627.0	10.8			
	Other Textile Manufactures		855.1	1043.4	22.0			
C.	**Petroleum Group**		116.1	236.0	103.3			
	Petroleum Products	M.T	20.8	57.3	175.6	46702	80746	72.9
	Petroleum Top Neptha	M.T	32.5	0.0	-100.0	96033	0	-100.0
D.	**Other Manufactures**		2566.1	2982.6	16.2			
	Carpets, Rugs & Mats	TH.SQM	54.3	61.0	12.3	1109	1799	62.2
	Sports Goods	TH.DOZ	192.2	259.9	35.2			
	Leather Tanned	TH.DOZ	113.3	154.5	36.3	7859	11754	49.6
	Leather Manufactures		427.7	463.9	8.5			
	Surgical Goods. & Med. Inst.		324.3	307.7	-5.1			
	Chemical & Pharma. Pro.		844.2	1093.7	29.6			
	Engineering Goods		163.8	168.3	2.8			
	Jewellery		6.5	10.0	53.3			
	Cement	M.T	210.0	199.4	-5.1	6247086	5227877	-16.3
	Guar & Guar Products	M.T	25.8	32.7	26.7	21410	19125	-10.7
	All Other Manufactures		204.0	231.6	13.5			
E.	**All Other items**		1318.3	1932.2	46.6			

P : Provisional

Source: PBS

The Basmati rice exports increased both in quantity and value by 26.1 percent and 21.6 percent respectively, during Jul-Mar FY2022. One major contributor to this increase is exports to Kazakhstan, which grew by over 200 percent during Jul-Feb FY2022. Besides, there was higher demand from Madagascar, Somalia and Malaysia. Price of Pakistan's basmati rice remained lower than last year, making it more competitive in the international market.

The other varieties under rice group during Jul-Mar FY2021 witnessed a growth of 12.6 percent in value and 22.2 percent in quantity. Higher shipments could be traced to China, where demand was strong, as underscored by growth in consumption and import of rice amidst Asian origin quotes being lower than domestic prices.

Exports of oil seeds, nuts & Kernels witnessed a growth of 88.7 percent in quantity and 131.4 percent in value during Jul-MarFY2022. The export of spices also increased both in quantity and value by 12.7 percent and 18.0 percent, respectively during Jul-Mar FY2022.

Meat and meat preparation increased in value by 1.2 percent; however, its quantity declined by 21.7 percent during Jul-Mar FY2022. Pakistan has the opportunity to harness the Halal meet market in Muslim African and East Asian countries. The major challenges being faced by exporters include: credit risk, under-invoicing, over-supply of chilled meat, new entrants, lack of fair play in domestic market, Foot and Mouth Disease (FMD) and lack of technical expertise. Further, establishment of FMD free zones, livestock feedlot farms, and efficient traceability mechanism are necessary required actions to enhance meat exports.

Textiles and apparel sector occupies a pivotal position in Pakistan's economy having most intensive backward and forward linkages compared to any other sector. It contributes approximately 60 percent in total exports and 40 percent in industrial employment. Pakistan is the fifth largest cotton producing country with tremendous potential in further improvement in its world share.

During current fiscal year, Textile policy 2020-25 has been approved by the Cabinet. Textiles and Apparel Policy, 2020-25 aims to fully utilize potential of home-grown cotton augmented by Manmade Fibers/Filaments to boost value-added exports and become one of the major players in global textiles and apparel supply chain. The policy aims to provide conducive business environment, consistent, predictable and foreseeable measures and level playing field for the domestic and export-oriented textiles and apparel value-chain industries.

Textile group witnessed a growth of 25.4 percent during Jul-Mar FY2022 and reached US$ 14.2 billion compared to US$ 11.3 billion during the corresponding period last year. Pakistan received higher foreign orders for finished goods, which consequently increased demand of textile intermediaries', i.e. cotton fabric and yarn and led to enhancing capacity development as well as the value chain. Increased international prices of cotton helped in increased export unit values of Pakistan's major textile products. Some competitor countries like Bangladesh have witnessed the same surge in exports unit values. According to the US Department of Agriculture (USDA) world cotton market updates, strong global demand and lower supplies due to logistical challenges, led to prices rising consistently until the middle of February 2022.[1]Besides China, Cotton is witnessing strong demand from Pakistan, Bangladesh and Vietnam as well.

Global logistical crisis and rising freight cost elevated the landed cost of imported cotton in Pakistan, which is eventually being factored into exports unit prices of finished goods like apparel and textile. Containers freight rates increased dramatically between January 2019 and March 2022. The year 2021 saw an especially steep increase in global freight rates, reaching a record price of over US$10,800 in September 2021. Whereas, on YOY the global freight rate index increased by 68.3 percent to US$ 8200 in March 2022 as against US$ 4872 in March 2021.[2]

In case of home textiles, bedwear exports increased both in quantity and value by 15.0 percent and 19.3 percent, respectively, whereas towels exports increased in both quantity and value by 5.1 percent and 18.4 percent in Jul-Mar FY2022. Knitwear exports grew by 34.1 percent in value despite a decline of 4.8 percent in quantity during Jul-Mar FY2022. The exports of readymade garments increased both in quantities by 33.9 percent and in value by 26.2 percent during Jul-Mar FY2022. This increase is mainly due to increase in the demand for formal wear bouncing back as the COVID-related mobility restrictions generally eased around the globe in 2021, and many workers returned to their workplaces.

The exports of intermediate commodities like cotton yarn witnessed an increase in value by 26.0 percent, while the quantity witnessed a decline of 11.2 percent. Cotton cloth export increased both in quantity and value by 8.9 percent and 26.5percent, respectively during Jul-Mar FY2022.

The Petroleum group's exports posted an increase of 103.3 percent during Jul-Mar FY2022. Furthermore, petroleum crude exports also soared 184.9 percent to US$ 178.7 million during Jul-Mar FY2022.

Export of leather tanned grew remarkably both in quantity and value by 49.6 percent and 36.3 percent, respectively. The leather industry witnessed a steady recovery on account of prudent government policies and significant relaxations in lockdown at various export destinations.

In the case of sports goods, Gloves exports increased both in quantity and value 132.5 percent and 16.4 percent, respectively during Jul-Mar FY2022. Gloves exports were recorded at US$ 56.7 million. Other major sports goods is football witnessed an increase both in quantity and value by 37.8 percent and 40.3 percent, respectively.

Pakistan has been the official makers of match-ball since the 1982 FIFA World Cup. The nowcasts for the football exports is very remarkable as FIFA World Cup is set to commence in Doha, Qatar in November, 2022.The ball named 'Al-Rihla' has been manufactured in Pakistan by Adidas.

[1] Fibre2Fashion.com

[2]https://www.statista.com/statistics/1250636/global-container-freight-index/

Export of carpets, rugs, and mats registered a growth both in quantity and value by 62.2 percent and 12.3 percent, respectively during Jul-Mar FY2022.The export of cement witnessed a decline both in quantity and value by 16.3 percent and 5.1 percent, respectively during Jul-Mar FY0222. Increased production cost, rising international freight rates, soaring coal prices are the main reasons of reduction in cements exports. Moreover, Iranian cement replaced Pakistani cement in Bangladeshi market, as the former is economical due to low cost of energy.

Exports of Chemicals and pharmaceuticals product grew by 29.6 percent and clocked in at US$ 1093.7 million during Jul-Mar FY2022. Chemicals, other than the ones used in pharmaceutical and plastic products, had the highest share.

To tap the huge potential for pharmaceutical products in the global market, the MOC closely coordinated efforts with Ministry of National Health Services, Regulations & Coordination (MNHSR&C) and Drug Regulations Authority of Pakistan (DRAP) to implement the following:

a. **One-Window Facility for grant of GMP[3] and cGMP[4]:** DRAP has decentralized the process of issuance of cGMP certificates, which are now issued by DRAP's field offices on priority basis. Moreover, the validity period of the GMP certificate for export purpose has also been extended by DRAP for 3 years.
b. **Active Pharmaceutical Ingredient:** API is substances used in a finished pharmaceutical product. Pakistan imports over 90 percent of the APIs/pharmaceutical raw material from abroad especially from India and China. In order to decrease reliance on imported raw material and develop indigenous capabilities, the MNHSR&C has finalized draft of the API Policy, which is in the process of approval by the Cabinet.

Surgical industry is an important sector of the economy having an annual export of US$ 426 million in FY2021, providing employment to hundreds of thousands of skilled and semi-skilled workforces in the country. During Jul-Mar FY2022, Surgical goods & Medical Instruments exports were recorded at US$ 307.7 million. The European Union Medical Device Regulation (MDR)/Regulation (EU) 2017/745 (EU MDR) entered into force on 26th May 2021, impacting manufactures which were previously exempt from medical device regulation. The new regulations will be fully implemented from May 2024.

Box-II: International Engineering and Healthcare Show, 2022

The Trade Development Authority of Pakistan (TDAP) organized Pakistan's first ever Engineering and Healthcare Show, 2022 (EHCS) at Expo Centre Lahore from 25th to 27th February, 2022. In the 1st edition of EHCS, 325 foreign delegates from 27 African countries and 05 Central Asian Republics visited the stalls of 170 exhibitors to get first-hand experience of the whole range of engineering and healthcare products being offered by Pakistan.

[3] A Good Manufacturing Practices (GMP) certification scheme
[4] Current Good Manufacturing Practice (cGMP)

The purpose of the event was to provide opportunity to Pakistani SMEs to showcase their products in African and Central Asian markets, to explore opportunities for investments, JVs & brand franchising, and to promote soft image of Pakistan as manufacturing hub of Engineering & its allied products.

Prominent sectors exhibited in the show included Agricultural machinery, Mobile devices, Pharmaceutical, Surgical instruments, Sports goods, Musical instruments, Auto-parts, Electrical machinery, Cutlery, Cookware, Marble, Minerals, Steel & Iron, Construction materials, Gems & Jewelry, Furniture, Mattresses, Rubber & its other products, Packaging, Plastic and its implements, Stationery, Paperboard, Handicrafts, Safety Equipment& Chemicals.

The reported outcome of business deals which have been materialized so far amounts to approximately USD 47 million, based on which it is expected that the actual business generated may exceed USD 150 million.

During the event, TDAP organized around 2100 sector-specific B2B meetings of foreign buyers with local exhibitors in which extensive discussion was held related to business generation and future collaboration. In order to create awareness regarding ease of doing business, investment and financial matters, three seminars were organized by Pakistan Single Window (PSW), BOI and SBP, respectively.

The President of Pakistan formally launched the Pakistan Trade Portal on the sideline event of the show. Pakistan Trade Portal is an initiative of TDAP to cater the need of Pakistan Businesses relating to having a free of cost, cross boarder B2B matchmaking portal. Keeping in view the success of the 1stEdition of EHCS, it has been decided to make Engineering and Healthcare Show a permanent feature of Annual Business Plan of TDAP.

Source: TDAP

Concentration of Exports

The trend of Pakistan's export of major items remains more or less the same having concentrated on three items namely cotton manufactures, leather and rice (Table 8.2). These three categories account for 69.9 percent of total exports during Jul-Mar FY2022.

Within these few items, cotton manufactures remain the major contributor with 59.2 percent in total exports. Almost all the export earnings have originated from textile manufactures. This pattern shows that Pakistan's export is still concentrated in a few items. The annual percentage shares of the major export commodities are shown in Table: 8.2.

Table 8.2: Pakistan's Major Exports — **Percentage Share**

Commodity	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	July-March	
							2020-21	2021-22 P
Cotton Manufactures	55.0	56.5	61.7	56.4	56.6	59.0	58.8	59.2
Leather**	4.9	4.1	4.2	3.7	3.6	3.3	3.3	3.0
Rice	8.8	8.8	7.7	9.0	10.2	8.1	8.4	7.7
Sub-Total of three Items	**68.7**	**69.4**	**73.6**	**69.1**	**70.4**	**70.4**	**70.5**	**69.9**
Other items	31.3	30.6	26.4	30.9	29.6	29.6	29.5	30.1
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

In so far as the top export destinations are concerned, USA remains the largest export market for Pakistan during Jul-Mar, FY2022. Exports to USA have moderately increased from 20 percent in Jul-Mar FY2021 to 21 percent in Jul- Mar FY2022. Similarly, Chinese share in exports has increased from 10 percent to 11 percent during the period under review. Detailed bifurcation of major export markets have shown in the Table 8.3.

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

Country	2018-19		2019-20		2020-21		July-March			
							2020-21		2021-22 P	
	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share
USA	532.8	17	585.4	17	823.6	20	593.6	20	854.3	21
China	259.6	8	273.4	8	388.0	10	292.9	10	428.4	11
Afghanistan	176.4	6	134.3	4	163.8	4	126.9	4	90.2	2
United Kingdom	226.8	7	239.6	7	324.7	8	245.3	8	277.1	7
Germany	173.4	6	199.0	6	241.2	6	187.7	6	220.0	5
U.A.E	125.8	4	178.9	5	160.9	4	118.9	4	174.6	4
Bangladesh	101.8	3	102.6	3	104.1	3	78.3	3	125.1	3
Italy	107.4	3	115.0	3	125.9	3	92.6	3	138.6	3
Spain	126.5	4	130.3	4	140.3	3	108.1	4	159.3	4
France	53.9	2	87.1	3	101.8	3	49.8	2	60.5	2
All Other	1,243.8	40	1,324.2	39	1,467.8	36	1,126.1	37	1,490.6	37
Total	3,128.2	100	3,369.8	100	4,041.9	100	3,020.2	100	4,018.8	100

Source: PBS

Box- III: STRATEGIC TRADE POLICY FRAMEWORK (STPF) 2020-25

The Ministry of Commerce (MOC) has prepared the STPF 2020-25 that aims to enhance export competitiveness of Pakistan through a framework of interventions having an impact across the value chains. The policy has been formulated after holding extensive consultations with the private and public sector stakeholders after critically analysing the deficiencies of the previous trade policies. The STPF intends to make the policy implementation unidirectional by correcting the chronic policy fragmentation related issues. Overall, it aims to enhance the ability of Pakistani enterprises' capacity to produce, distribute and sell products and services as or more efficiently than is done by the competitors.

A. Pillars of STPF 2020-25

i) Rendering exports, a national priority and the primary driver of economic growth, that is both inclusive and sustainable, and is the main viable source of foreign exchange earnings;

ii) Enhancement of exports via a collaborative and cohesive national effort engaging all relevant ministries, departments, government agencies and private sectors so as to ensure policy coherence;

iii) Introduction of strategic interventions in priority sectors under 'Make in Pakistan' initiative. Alignment of Trade Policy in tandem with macro-economic framework and other national policies such as Taxation, Revenue, Textiles & Industrial Policy, etc.

B. Guiding Principles of STPF 2020-25

i) No element of any duties and taxes on exports.

ii) Regionally competitive energy prices for export-oriented sectors.

iii) The export enhancement support and incentive initiatives should be made simplified, certain and automated performance oriented and time-bound.

iv) An institutionalized mechanism for robust monitoring and implementation of the STPF in order to minimize the policy implementation gaps.

C. Critical Enablers of STPF 2020-25

Following major Critical Enablers (CEs) that would help achieve the objectives of STPF 2020-25:

i) **Competitiveness Enhancement** through a. Reduction in Cost of Doing Business, b. Tariff Rationalization, c. Productivity Enhancement, d. Enhancement of Quality of Products: Trade Related Investment

ii) **Integration into Global Value Chains (GVCs)**

iii) **Export Ecosystem**

D. Identification of Priority Sectors under STPF 2020-25

The priority sectors have been identified after studying the international demand trends, on one hand, and on the other, the capacity and capabilities of different export sectors of Pakistan. The guiding principle was to divert the most of efforts and interventions in those sectors that promise greater export opportunities and larger returns. Following priority sectors have been identified in STPF 2020-25 which have been bifurcated into traditional and developmental categories:

Traditional Sectors	Developmental Sectors
1. Textile & Apparel 2. Leather 3. Surgical Instruments 4. Sports Goods 5. Carpets 6. Rice 7. Cutlery	1. Engineering Goods (incl. Auto Parts) 2. Pharmaceutical 3. Marble & Minerals 4. Processed Food & Beverages 5. Footwear 6. Gems & Jewellery 7. Chemicals 8. Meat & Poultry 9. Fruits & Vegetables 10. Sea Food 11. Services Sector (Special focus on IT, Transport, Logistics & Tourism)

E. National Export Development Board (NEDB)

In order to oversee the implementation of STPF 2020-25, a cross functional National Export Development Board has been constituted under the chairmanship of the Prime Minister, comprising of senior public sector officials of relevant organizations and private sector representatives.

Source: Ministry of Commerce

Bilateral Relation

Pakistan attaches great importance to its trade relations with other trading partners. Engagements of Pakistan with its trading partners in the outgoing fiscal year are mentioned below:

China-Pakistan

Pakistan is engaged with China through a bilateral agreement in addition to other commercial agreements.

1. During the period July-March FY2022, the MOC, in consultation with the TDAP, launched an awareness campaign for the un-utilized tariff lines for exports under CPFTA-II. The campaign is extended over two FYs (21-22 & 22-23).

CARs Region

Pak-Uzbekistan Preferential Trade Agreement (PTA): To enhance market access, MOC signed Pak-Uzbekistan PTA on 3rd March, 2022. Under the PTA, both sides have provided tariff concessions to each other on seventeen items, by reducing duties from 20-100 percent. This would help in enhancing exports to Uzbekistan.

a) **Pakistan-Uzbekistan Business Forum 2021:** 1st Pakistan-Uzbekistan Business Forum was held on 15-17th July, 2021 at Tashkent. More than 2000 business meetings took place during the forum where overall 14 MOUs worth approximately US$ 50 million were signed.

b) **Pakistan-Tajikistan Business Forum 2021:** Pak-Tajikistan Business Forum was held on 16th September, 2021 at Dushanbe. B2B meetings for 67 Pakistani companies from diverse sectors of pharmaceutical, textile, logistics, fruits & vegetables, mining etc. were organized with Tajik companies. More than 150 Tajik companies participated in the B2B meetings where Eight Agreements/ MOUs signed and several are under negotiation stage.

c) **Pakistan-Uzbekistan Business Forum 2022:** 2nd Pakistan-Uzbekistan Business Forum was organized on 2nd March 2022 at Islamabad in which 46 Uzbek companies and 150 Pakistani companies participated and B2B meetings were held and at least six MOUs were signed.

The exports in the non-traditional market of Central Asian Republics, increased by 101 percent during Jul-Mar FY2022

DEVELOPMENT OF ECONOMIC CORRIDOR

MOC has taken following actions to develop Economic Corridor and enhance regional connectivity with landlocked CARs:

- **Signing of Transit Trade Agreement with Uzbekistan:** MOC has signed Agreement between Uzbekistan and Pakistan on Transit Trade (AUPTT) on 15th July, 2021
- **Transit Trade Agreement proposed with Tajikistan:** Pakistan and Tajikistan decided to start negotiations on Transit Trade Agreement during the meeting of Joint Working Group on 12th August 2021.
- **Transit Trade Agreement proposed with Kazakhstan:** Pakistan and Kazakhstan decided to start negotiations on Transit Trade Agreement during the meeting of Joint Working Group on 15th November 2021.

Middle East Region

The exports of traditional markets of Middle East, have increased by 24 percent during July-March FY2022. The major events in these markets are as follows:

1. **EXPO 2020:** Pakistan participated in EXPO 2020 from 1st October 2021 to 31stMarch 2022. It has been reported that over one million visitors visited Pakistan Pavilion during first 82 days of the EXPO 2020. Federal & Provincial departments have organized multiple events during the mega EXPO. Pakistan Pavilion was rated among top-15 National Pavilions in EXPO 2020 by CNN. At the end of the EXPO, Pakistan Pavilion was presented Silver Award by International jury, which is a huge achievement.
2. **Pakistan-GCC FTA Negotiations:** Pak-GCC FTA is a comprehensive agreement covering goods, services, cooperation in investment and various other fields. Pakistan & GCC have resumed FTA negotiations after thirteen years.

3. **<u>Establish of JWG on Trade with Syria:</u>** Pakistan and Syria signed a MOU to establish a Joint Pakistan-Syrian Working Group on Trade & Economic Affairs on 31st of Oct, 2021 in Damascus, Syria. . In this regard, first technical level meeting of JWG was held on 23rd Dec, 2021 to discuss various aspects of trade cooperation.

Africa Region

To enhance exports to the non-traditional market of Africa, MOC launched its Look Africa Policy in 2017/18 to increase commercial presence of Pakistan in Africa, establishment of institutional linkages and strengthening of B2B relations. The exports increased by 12 percent during July-March FY2022.The following initiative has been taken to diversify exports to Africa:

a) **<u>2nd Pakistan Africa Trade Development Conference and Single Country Exhibition:</u>** 2nd Pakistan Africa Trade Development Conference and Single Country Exhibition were successfully organized in Lagos, Nigeria from 23-25 November 2021. Efficient coordination with Pahic Abuja, TDAP, TIA Lagos and Nigerian High Commission in Islamabad ensured participation of more than 240 business persons from Pakistan representing 103 companies and around 75 delegates from other ECOWAS countries. Business deals worth around US$ 32 million were finalized during the event.

United States

The USA is the largest exports market for Pakistan's products with 20 percent share in Pakistan's total export in 2020-21. Pakistan's main exports to USA are in articles of apparel & home textiles (78percent), intermediate textile (6percent), leather apparels (3percent), sugar confectionary, rice, spices etc. (3percent), surgical goods (2percent), plastics and rubber (2percent), and furniture & sports goods (2percent).

Russia

The balance of trade is in favour of Russia with Pakistan trade deficit balance of US$ 191.7 million in July-Feb FY2022. The 3rd Joint Working Group meeting on Trade & Investment of the 7th Pakistani-Russian Intergovernmental Commission on Trade, Economic, Scientific and Technical Cooperation was held in Yekaterinburg, Russia on November 24-26, 2021.

United Kingdom

The balance of trade is in favour of Pakistan with a trade balance of US$ 911.13 million in July-Feb FY 2021-22. Post Brexit, UK has given a firm commitment to Pakistan that it will continue to grant similar market access to the Pakistani products which it currently enjoys under EU GSP plus regime. The Government of UK is going to commence its own GSP scheme called Developing Countries Trading Scheme effective from 2022. The new scheme will replace the UK's current Generalized Scheme of Preferences. Consultation process for the new scheme concluded on 12 September 2021. From Pakistan, the representatives of public sector, private sector and academia participated in the consultation process.

Box- IV: 5th Trade Policy Review of Pakistan

The Trade Policy Review (TPR) is a mandatory exercise undertaken by Trade Policy Review Board (TPRB) of the World Trade Organization (WTO). The review is undertaken every seven years for Pakistan and engages in surveillance of national trade and economic policies from view point of multilateralism. Pakistan being one of founding members of WTO has undergone four such reviews in the past and the 5th Trade Policy review stretched over May 2021 to April 2022. Main objectives of TPR are to achieve transparency, better understanding of the reviewed Member's trade policies and practices and contributing to improved adherence by all Members to rules, disciplines and commitments made under the Multilateral Trade Agreements. The review culminates into two reports: 'Government Report' and 'Secretariat Report' which are circulated amongst all WTO Members and hence have an international audience.

Ministry of Commerce served as focal Ministry for the entire process and liaised with all public sector stakeholders to respond to all queries of the TPRB and to compile such reports as are effective to represent the progressive nature of Pakistan's economic and investment potentials. Scope of 'Secretariat Report' is extensive as it relays detailed analytical information regarding economic environment, trade regime, investment regime, trade policies and practices. 'Government Report' comprises of a precise and forward-looking statement from the government focusing on future economic policy aims of the country. After extensive data gathering, analyses and inter-ministerial consultations both the reports were shared with WTO Secretariat and were circulated to all the WTO members.

The Reports were discussed at concluding meetings of TPRB where all WTO Members noted Pakistan's resilience and effective policies in tackling economic shocks of COVID -19 and subsequent economic recovery. Pakistan was commended largely for quick implementation of the Trade Facilitation Agreement (TFA). The Members unanimously appreciated Pakistan's active engagement at the WTO upholding the values and fundamental principles of the WTO and support for developing countries & invited Pakistan to join other international agreements on various trade pertinent matters for further integration into multilateralism.

Source: Ministry of Commerce

Imports

The total imports during Jul-Mar FY2022 clocked at US$ 58.9 billion as compared to US$ 39.5 billion in the same period last year, showing a growth of 49.1 percent (Table 8.4). The increase in imports is recorded in all the major groups. Multiple factors have contributed to the steep rise in imports during Jul-Mar FY2022. Rising global commodity prices contributed significantly to the increasing import volume.

Disaggregated data on imports indicates that the energy group is the largest source of the increase in imports, contributing over one-third to the YoY increase in imports during the period. Similarly, price-led pressures were also noted across non-energy commodities imported by Pakistan, such as edible oil (palm and soybean), sugar, tea, fertilizer, and steel. At the same time, the domestic demand for imported raw materials (such as cotton and steel) and capital goods was also elevated in the wake of the policy-induced economic rebound.

Measures to Curtail Unnecessary Imports

The broad-based up surge in global commodity prices, COVID-19 vaccine imports, and demand-side pressures, all contributed to the rising imports. While the PKR exchange rate acted as a shock absorber and depreciated, in response to external payments pressure. Following regulatory measures were taken to curtail the import burden:

- **Imposition of 100 percent cash margin requirements**: In September 2021, the SBP decided to impose 100 percent cash margin requirement (CMR) on the import of 114 non-essential items. The SBP imposed CMRs on a further 177 items in April 2022. As of April 15, 2022, CMRs are applicable on a total of 702 items, covering 22 percent of overall imports in the country.
- **Tightening in prudential regulations for auto and consumer financing**: To moderate domestic demand and the import burden from the transport segment, the SBP made the following changes to prudential regulations for auto financing.
    - Maximum tenure of auto finance reduced from seven to five years;
    - Maximum tenure of personal loans reduced from five to four years;
    - Maximum debt-burden ratio, allowed to a borrower, decreased from 50 to 40 percent;
    - All auto financing limits availed by one person from all banks/DFIs, in aggregate, not to exceed Rs 3 million at any point in time; and
    - Minimum down payment for auto financing increased from 15 percent to 30percent;
- **Increase in cash reserve requirement for banks**: The SBP increased the average cash reserve requirement (CRR), to be maintained by banks during a two-week period, from 5 percent to 6 percent, and the minimum CRR to be maintained each day from 3 percent to 4 percent. The measure is expected to moderate domestic demand, and also encourage banks to actively pursue deposit mobilization efforts.
- Imported motor cars, SUVs and other motor vehicles
    - of cylinder capacity exceeding 1800cc to 3001cc has been increased FED from 25 percent to 30 percent ad val.
    - of cylinder capacity exceeding 3001cc FED has been increased from 30 percent to 40 percent ad val.
- Imported double cabin (4x4) pick-up vehicles, FED has been increased from 25 percent to 30 percent ad val.
- Rate of sales tax on imported EV in CBU condition has been enhanced from 5 percent to 12.5 percent.
- The sale tax @ 17 percent ad valorem has been introduced for imported mobile devices valuing more than US$ 200.

- Eighth Schedule has now been streamlined and a number of reduced rates and concessionary regimes have been withdrawn, bringing these goods under standard regime.

Table 8.4 : Structure of Imports

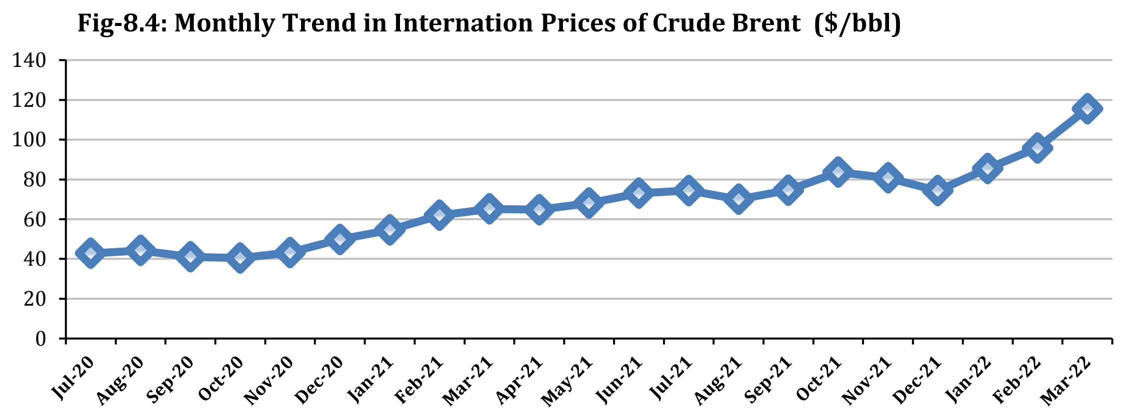
Particulars		Units	July-March Value in US$ million		% Change in Value	July-March Quantity		% Change in Quantity
			2020-21	2021-22 (P)		2020-21	2021-22 (P)	
	Total		39,489.3	58,867.6	49.1			
A.	**Food Groups**		6,121.4	7,067.7	15.5			
	Milk & Milk food	M.T	76.8	74.3	-3.3	43,675	35,796	-18.0
	Wheat Un milled	M.T	938.3	795.3	-19.1	3,612,638	2,206,880	-38.9
	Dry Fruits	M.T	69.7	54.0	-22.5	66,766	77,902	16.7
	Tea	M.T	435.1	487.1	12.0	194,961	199,807	2.5
	Spices	M.T	157.6	176.0	11.7	138,407	115,414	-16.6
	Edible Oil (Soyabean& Palm)	M.T	1,909.3	2,834.0	48.4	2,516,070	2,325,117	-7.6
	Sugar	M.T	127.5	190.9	49.7	279,604	311,031	11.2
	Pulses	M.T	448.4	477.7	6.5	842,643	720,433	-14.5
	Other Food Items		1,913.8	1,978.6	3.4			
B.	**Machinery Group**		4,481.0	5,565.7	24.2			
	Power generating Machines		1,356.1	1,235.9	-8.9			
	Office Machines		332.7	464.0	39.5			
	Textile Machinery		381.9	624.8	63.6			
	Const. & Mining Machines		104.6	138.5	32.4			
	Aircrafts, Ships and Boats		373.4	532.9	42.7			
	Agriculture Machinery		66.0	90.6	37.3			
	Other Machinery Items		1,866.4	2,479.1	32.8			
C.	**Petroleum Group**		5,471.0	10,944.7	100.0			
	Petroleum Products	M.T	3,447.6	7,290.0	111.4	10,439,837	12,532,860	20.0
	Petroleum Crude	M.T	2,023.4	3,687.7	82.3	6,422,166	6,647,166	3.5
D.	**Consumer Durables**		2,623.6	4,181.5	59.4			
	Road Motor Vehicles		1,545.6	2,693.8	74.3			
	Electric Mach.& Appliances		1,077.9	1,487.7	38.0			
E.	**Raw Materials**		7,160.7	9,596.6	34.0			
	Raw Cotton	M.T	1,032.1	1,205.5	16.8	624,945	533,871	-14.6
	Synthetic Fibre	M.T	441.0	562.3	27.5	346,248	291,364	-15.9
	Silk Yarn (Synth &Arti)	M.T	499.8	650.2	30.1	317,440	293,191	-7.6
	Fertilizer Manufactured	M.T	440.2	675.2	53.4	1,256,943	1,231,926	-2.0
	Insecticides	M.T	129.9	135.7	4.0	28,509	24,379	-14.5
	Plastic Material	M.T	1,771.1	2,324.9	31.3	1,449,276	1,452,426	0.2
	Iron & steel Scrap	M.T	1,418.8	1,856.1	30.8	3,830,128	3,128,070	-18.3
	Iron & steel	M.T	1,427.8	2,186.7	53.1	2,309,097	2,782,458	20.5
F.	**Telecom**		1,913.7	2,125.4	11.1			
G.	**All Other Items**		11,718.0	19,353.5	65.2			

P : Provisional

Source : PBS

The food group with a share of 12.2 percent in total imports, increased by 15.5 percent during Jul-Mar FY2022, and its import clocked at US$ 7067.7 million as against US$ 6121.3 million during the comparable period last year. Within food group, surge has been observed in the import of tea, sugar, palm oil, soya bean oil and pluses.

The import of petroleum group increased by 96.1 percent during Jul-Mar FY2022 and reached US$ 14812.5 million as compared to the US$ 7553.9 million corresponding period last year, mainly due to historically high global oil prices. Within the petroleum group, the petroleum products increased both in quantity and value by 20.0 percent and 111.4 percent, respectively. Petroleum crude increased tremendously in value by 82.2 percent and quantity increased meagerly by 3.5 percent during Jul-Mar FY2022 as compared to the same period last year, despite a huge increase in unit prices internationally.



Source: Pink Sheet World Bank May 2022

Machinery Group is vital engine of growth for successful industrial and manufacturing sector development. Its import increased substantially by 21.7 percent and reached US$ 8684.5 million during Jul-Mar FY2022 as compared to US$ 7132.8 million the same period last year. Within this group, import bill of power generating machinery decreased by 8.9 percent and reached US$ 1235.8 million as compared to US$ 1356.0 same period last year. The import bill of textile machinery registered an increase of 64.7 percent (US$ 621.7 million) during Jul-Mar FY2022 against (US$ 377.5 million) last year. The textile sector availed Rs 94.6 billion loans under TERF and LTFF during Jul-Mar FY 2022 as against Rs 68.8 billion, which may have augmented the demand for textile machinery.

Electrical machinery & Apparatus imports registered a growth of 37.5 percent (US$ 1515.2 million) during Jul-Mar FY2022 over (US$1101.7 million) in the same period last year. The ongoing increase in industrial activity, specifically in textile industry and transport sector, raised the demand for switch gears and other electrical equipment leading to the increased demand of electrical machinery.

Within the machinery group, telecom sector imports accelerated by 11.1 percent (US$ 2136.5 million) during Jul-Mar FY2022 compared to (US$ 1923.4 million) last year. Mobile phone imports in Pakistan increased by 3.9 percent during Jul-Mar FY2022 and reached US$ 1596.3 million as compared to US$ 1535.9 million same period last year.

The import of transport group surged by 67.5 percent and reached US$ 3367.4 million during Jul-Mar FY2022 as compared to US$ 2010.3 million last year. The import of road motor vehicle increased by 73.2 percent of which CBU increased by 94.3 percent and CKD/SKD increased by 78.7 percent.

Metal group import increased by 38.4 percent and reached US$ 5011.9 million. The reviving activity in the construction and automobile sectors led to an increase in import of iron and steel by 53.1 percent in value and 20.5 percent in quantity during Jul-Mar FY2022. Imports of iron and steel scrap increased in value by 30.8 percent despite a decline of 18.3 percent in quantity during Jul-Mar FY2022 mainly due to rising prices internationally.

In the textile group, import of raw cotton witnessed an increase in value by 16.8 percent and its quantity declined by 14.6 percent during Jul-Mar FY2022 as compared to the same period last year on account of higher international prices.

Direction of Imports

Pakistan imports from countries like China, Saudi Arabia, UAE, and Indonesia constitute around 50 percent of the total imports. The share of imports from China has increased from 27 percent to 28 percent during Jul-Mar FY2022. Share of imports from USA has decreased from 6 percent to 5 percent during the period under review. Change in Pakistan's import pattern in subsequent years is shown in Table 8.5

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

Country	2018-19		2019-20		2020-21		July-March			
							2020-21		2021-22 P	
	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share	Rs.	% Share
China	1734.3	23	1909.2	27	2473.8	28	1728.8	27	2828.7	28
UAE	1020.1	14	812.7	12	878.6	10	601.1	9	983.6	10
Saudi Arabia	401.3	5	273.6	4	426	5	301.9	5	567.1	6
Kuwait	185.8	2	178.7	3	247.4	3	167.0	3	334.7	3
Indonesia	327.3	4	339.6	5	506.9	6	360.6	6	594.6	6
India	204.8	3	59.95	1	50.67	1	38.3	1	47.7	0
U.S.A	368.9	5	396.7	6	459.4	5	351.1	6	551	5
Japan	246.1	3	174.7	2	249	3	173.8	3	304.6	3
Germany	142.6	2	124.2	2	162.2	2	122.2	2	134.1	1
Malaysia	145.5	2	148.8	2	175.8	2	134.3	2	179.9	2
All Other	**2666.5**	36	**2611.5**	37	**3352.6**	37	**2400.1**	38	**3593**	36
Total	**7443.3**	100	**7029.8**	100	**8982.4**	100	**6376.1**	100	**10119**	100

P : Provisional

Source: Pakistan Bureau of Statistics

Balance of Payment

Amidst the challenging present global environment, Pakistan's external account also came under strain during Jul-Mar FY2022 and the trade deficit widened substantially over last year. On one hand, export receipts and workers' remittances both reached record-high levels during the nine-month period. On the other hand, however, the import payments also registered a sizable, broad-based increase. As a result, the current account deficit widened considerably over last year. These payment pressures manifested on the interbank PKR-USD exchange rate, which depreciated 14.1 percent during Jul-Mar FY2022. The SBP's FX reserves also came under pressure from Q2 onwards, dropping US$ 5.9 billion during Jul-Mar FY2022 to US$ 11.4 billion by end-March 2022.

Current Account

During Jul-Mar FY2022, current account posted a deficit of US$ 13169 million against a deficit of US$ 275 million last year. The major contributor to the higher current account deficit was the 55.5 percent increase in the merchandise trade deficit during Jul-Mar FY2022.

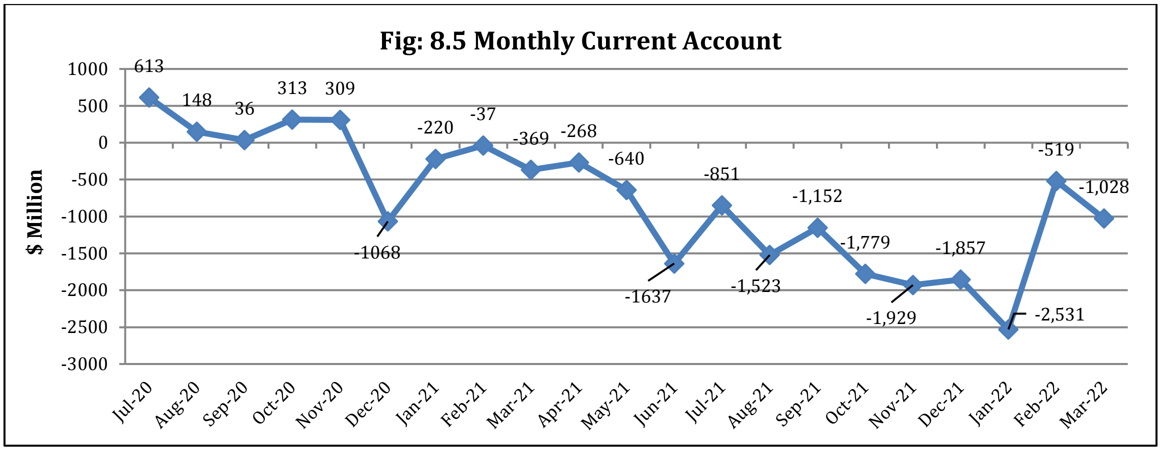


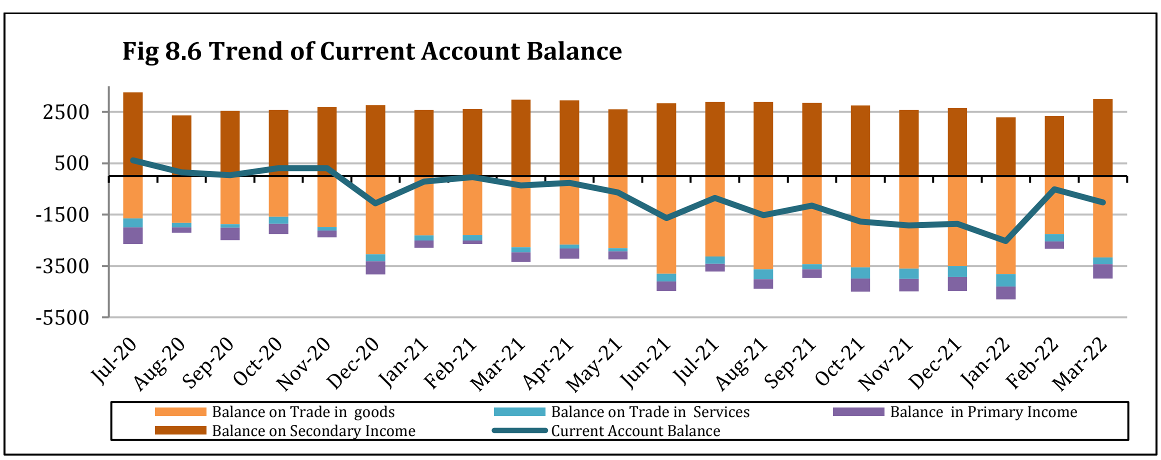
Table 8.6: Summary Balance of Payments US$ million

Items	July-June		July-March	
	2019-20	**2020-21**	**2020-21**	**2021-22 P**
Current Account Balance	-4449	-2820	-275	-13,169
Trade Balance	-21109	-28634	-19349	-30097
Exports of Goods FOB	22536	25639	18,713	23,699
Imports of Goods FOB	43645	54273	38,062	53,796
Service Balance	-3316	-2516	-1943	-3179
Exports of Services	5437	5945	4,404	5,156
Imports of Services	8753	8461	6,347	8,335
Income Account Balance	-5459	-4400	-3318	-3905
Income: Credit	479	508	355	488
Income: Debit	5938	4908	3,673	4,393
Balance on Secondary Income	25435	32730	24,335	24,012
Of which:				
Workers' Remittances	23131	29450	21,436	22,952

Source: State Bank of Pakistan

P: Provisional

In the primary income account, the deficit rose to US$ 3.9 billion (17.7 percent) in Jul-Mar FY2022, mainly due to a 20.7 percent uptick in interest payments during the period. Interest payments on official debt (including sovereign bonds) rose significantly during the period, partly reflecting the impact of rising global interest rate benchmarks on floating rate debt. Furthermore, profit and dividend repatriations also rose 12.2 percent during the period, contributing to deteriorate primary income account deficit.



Balance in Trade of Goods and Services

During Jul-Mar FY2022, export of goods grew by 26.6 percent and reached US$ 23.7 billion as compared to US$ 18.7 billion the same period last year. Import of goods grew by 41.3 percent to US$ 53.8 billion during Jul-Mar FY2022 as compared to US$ 38.1 billion the same period last year. Consequently, the trade deficit increased by 55.5 percent to US$ 30.1 billion as compared to US$ 19.3 billion last year.

The exports of services grew by 17.1 percent and reached US$ 5.2 billion during Jul-Mar FY2022 as compared to US$ 4.4 billion last year. This increase may be attributed due to 29.3 percent increase in net information and communication technology (ICT) services export, as higher earnings from call centre, and software development and consultancy services.

Fig: 8.7 Monthly Exports and Imports of Services

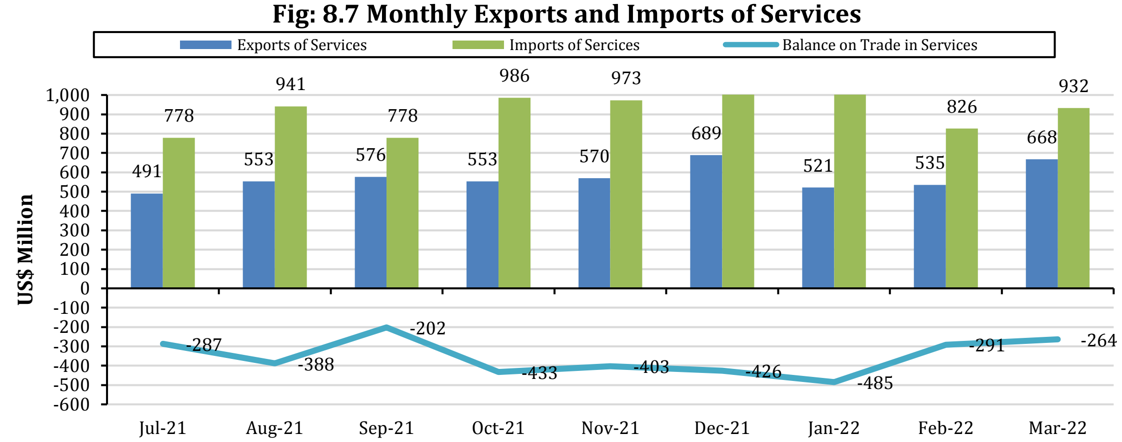
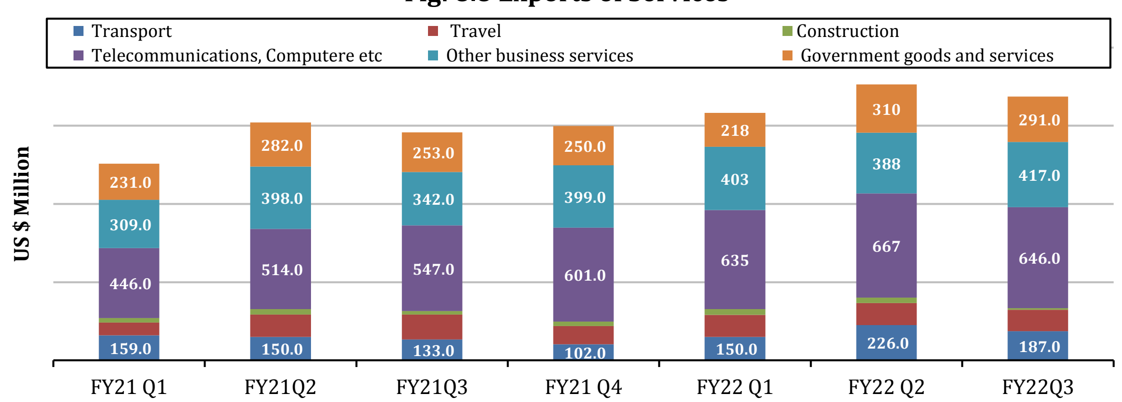
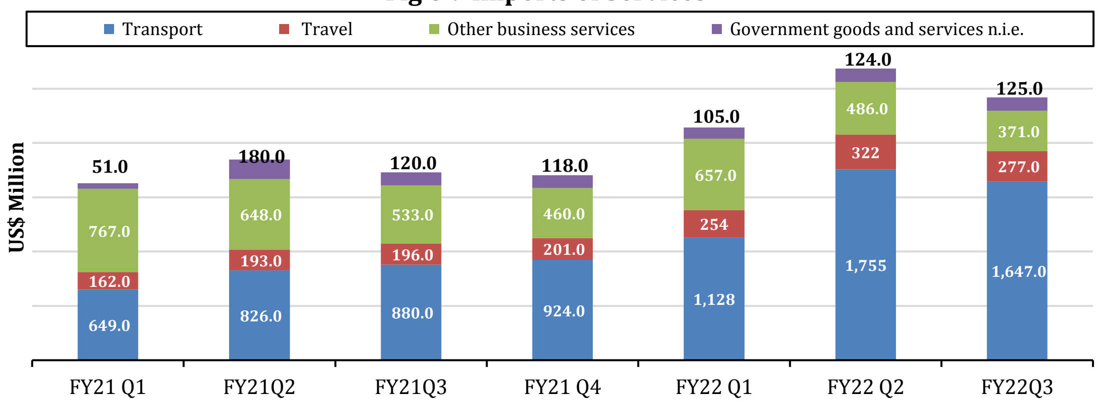


Fig: 8.8 Exports of Services



On the other side, import of services increased by 31.3 percent during Jul-Mar FY2022 and stood at US$ 8.3 billion as compared to US$ 6.3 billion last year. The higher goods imports had a spill over effect on the services account that led to a YoY doubling in freight import charges during Jul-MarFY2022. The resumption of international air travel also led to an increase in air transport and travel services imports. However, due to the rise in transport and travel services imports, the overall services account posted a deficit of US$ 3.2 billion in Jul-Mar FY2022 as against a deficit of US$ 1.9 billion same period last year.

Fig 8.9 Imports of Services



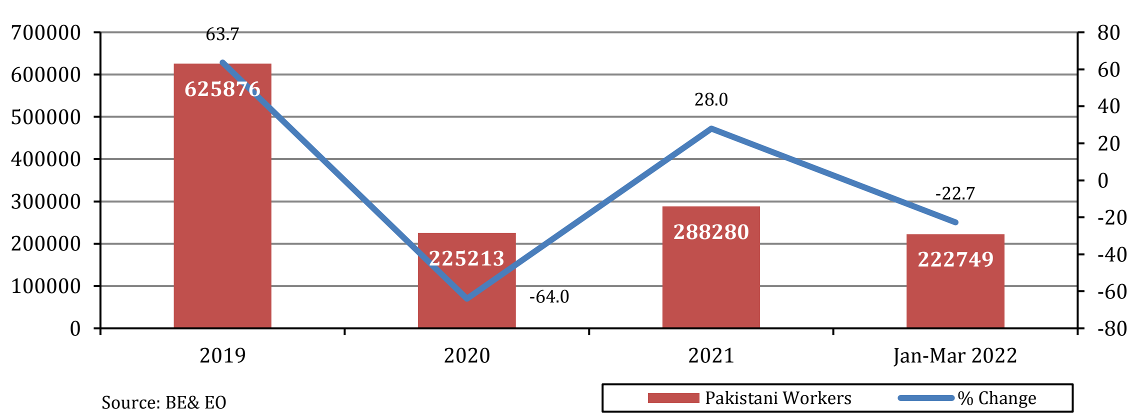
Remittances

Worker remittances have remained an important source of foreign exchange earnings over the years and are considered to be the dominant force to keep current account deficit at a manageable level.

According to the World Migration Report 2022, the number of international migrants has grown to 281 million (3.6 percent of world's population) in 2020 as compared to 272 million in 2019. The number of air passengers globally dropped 60 percent in 2020 on account of COVID-19 travel restriction to 1.8 billion (down from 4.5 billion in 2019) while at the same time internal displacement increased to 40.5 million (up from 31.5 million in 2019) due to disaster, conflict and violence.

Out of all international migrants over 40 percent in 2020 were born in Asia, primarily originating from India, China and South Asian countries such as Bangladesh, Pakistan and Afghanistan. During 2021 Bureau of Emigration and Oversee Employment (BE&OE) and Oversee Employment Corporation (OEC) have registered 288,280 workers for overseas employment. During Jan-Mar 2022 number of Pakistanis registered 222749.

Fig 8:10 Number of Pakistani Registered for Overseas Employment



Source: BE& EO

In case of Pakistan, workers' remittances have been rising consistently since FY2018 and the trend continued in FY2022 with a commendable growth of 7.1 percent and reached to US$ 22.9 billion during the Jul-Mar FY2022.On MoM basis, remittances increased by 28.3 percent in March (US$ 2.8 billion) compared to February (US$ 2.2 billion). On YoY basis, remittances increased by 3.2 percent to US$ 2.8 billion in March 2022 (US$ 2.7 billion in March 2021). The increase in remittances mainly due to Holy month of Ramadan as money is sent home for donation, charity, and Zakat and Eid festivals. Workers' remittances continued their unprecedented run of remaining above US$2 billion since June 2020.

The data of Workers' Remittances has been revised upward to reflect inflows into Roshan Digital Accounts (RDA) that are related to local consumption (like payment of utility bills, transfer to local PKR account, etc.) from November 2021 and onward. Since data on these conversions were not previously available by country, hence, these were reported under 'other private transfers' in the balance of payments statistics.

Table 8.7: Country/Region Wise Cash Worker's Remittances

Country/Region	July-March		(US$ billions)	
	2020-21	2021-22	% Change	Share
Saudi Arabia	5738.9	5809.9	1.2	25.3
U.A.E.	4524.8	4283.9	-5.3	18.7
USA	1830.5	2211.3	20.8	9.6
U.K.	2905.6	3187.3	9.7	13.9
Other GCC Country	2461.6	2665.5	8.3	11.6
Malaysia	154.6	106.4	-31.2	0.5
EU Countries	1951.7	2504.8	28.3	10.9
Others Countries	1868.8	2182.9	16.8	9.5
Total	21436.5	22952.0	7.1	100.0

Source: State Bank of Pakistan

During Jul-Mar FY2022, the share of remittances from Saudi Arabia stood at 25.3 percent (US$ 5809.9 million), U.A.E 18.7 percent (US$ 4283.9 million), USA 9.6 percent (US$ 2211.3 million), U.K 13.9 percent (US$ 3187.3 million), other GCC countries 11.6 percent (US$ 2665.5 million), EU 10.9 percent (US$ 2504.8 million), Malaysia 0.7 percent (US$ 106.4 million) and other countries 9.5 percent.

Several measures were taken to increase Workers Remittances:

- **SOHNI DHARTI REMITTANCE PROGRAM (SDRP):** The Sohni Dharti Remittance Program (SDRP) offered jointly by the SBP, MoF and Financial Institutions (FIs) launched on November 25, 2021. SDRP is an innovative program designed to incentivize Pakistani workers abroad to send remittances to Pakistan through banks and exchange companies and earn reward points.
- **Rationalization of Reimbursement of TT Charges Scheme:** Under the Scheme, domestic banks are now being disbursed Saudi Riyal (SAR) 20 per remittance transaction of USD 100/- or above subject to the condition, inter alia, that the remitter and the beneficiary have not been charged any remittance fee or any other charges for execution of remittance transaction.

- **Incentive Scheme for Marketing of Remittances:** In order to encourage domestic banks/microfinance banks/exchange companies providing remittance disbursement services, a tier-based performance scheme has been developed; in which FIs were reimbursed Rs 0.50 per USD on showing 5 percent or more growth, Rs 0.75 per USD on 10 percent to 15 percent growth and Rs 1.00 per USD on more than 15 percent growth. The Government of Pakistan (GOP) reimburses these expenses to FIs through SBP.
- **Mobile Wallet Scheme:** The 'Promotion of Remittance Scheme through M Wallet', the incentive of airtime was offered Rs 2 against each USD received as remittances.
- **Increase in Outreach:** SBP/PRI have been making continuous efforts to increase domestic and overseas outreach through expansion in bilateral arrangements.
- **Changes in Income Tax Ordinance:** In order to further facilitate remitters and beneficiaries, advance tax has been exempted on cash withdrawal from Pak Rupees Accounts to the extent of foreign remittances credited into such account. This measure has been enacted through Finance Bill 2020.
- **Awareness session through Pakistan Embassies:** SBP in collaboration with Pakistan Embassies/High Commissions have conducted awareness and facilitation sessions for non-resident Pakistanis to send remittances to Pakistan through formal channels across the globe.
- Ministry of Health Saudi Arabia has resumed its operation for taking manpower in the medical field from Pakistan after the pandemic. Two delegations have visited Pakistan in November- December 2021 for recruitment of medical professionals (Doctors & Nurses) in different specialties. Selection of 105 doctors and 103 Nurses has been received from M/o Health Saudi Arabia.

Financial Account

The financial account recorded net an inflow of US$ 8.5 billion during Jul-Mar FY2022, which were sharply higher than inflows of US$ 2.3 billion received in the same period last year. Still, these were not sufficient to offset current account deficit. The major inflows included US$ 3 billion in deposits from Saudi Arabia and US$ 2.8 billion in additional SDR allocation from IMF(August 2021), and US$ 1 billion in net proceeds from sovereign bonds. The country also received sizable financing from multilaterals, including the World Bank, ADB and Islamic Development Bank, and from commercial banks.

Foreign Direct Investment (FDI)

In 2021, global FDI recuperate robustly and grew by 77 percent to US$ 1.65 trillion as compared to US$ 929 billion last year exceeding their pre- COVID 19 level. The recovery remained highly uneven in infrastructure and green field projects, as due to stimulus package the former attract more FDI while in later it remained weak, globally. FDI in developed economies saw the biggest rise by far, with FDI reaching an estimated US$777 billion in 2021 – three times the exceptionally low level in 2020.FDI flows in developing economies increased by 30 percent to nearly US$870 billion, with a growth acceleration in East and South-East Asia (+20 percent), a recovery to near pre-pandemic levels in

Latin America and the Caribbean, and an uptick in West Asia. Developing economies, especially the least developed countries (LDCs) saw more modest recovery growth. [5]

Similarly, in Pakistan, net FDI inflows rose 6.1 percent to US$ 1.25 billion till February 2022 as against US$ 1.18 billion last year. In March 2022, net outflow was recorded at 30.4 million on account of political instability and ultimate change of regime. The FDI during Jul-Mar FY2022 declined by 2.0 percent to 1.28 billion as compared to US$ 1.31 billion same period last year. The inflows of FDI reached US$ 1.96 billion during Jul-Mar FY2022 compared to US$ 2.33 billion million same period last year, declined by 15.6 percent. The outflows of FDI during Jul-Mar FY2022 decreased by 33.2 percent and reached US$ 682.4 million compared to US$ 1021.0 million same period last year.

Table 8.8: Foreign Investment (US$ million)

	FY2020	FY2021	July-March	
			FY2021	FY2022 P
A. Foreign Private Investment	2,315.8	2,027.1	1048.4	943.4
Foreign Direct Investment	2,597.5	1,820.5	1311.1	1285.1
Inflow	3,322.1	3,061.4	2332.1	1967.5
Outflow	724.6	1,240.9	1021	682.4
Portfolio Investment	-281.7	206.6	-262.7	-341.7
Equity Securities	-281.7	-293.4	-262.7	-341.7
Debt Securities		500		
B. Foreign Public Investment	-241.3	2555.3	-3.50	502.6
Portfolio Investment	-241.3	2555.3	-3.5	502.6
Total Foreign Investment (A+B)	2074.5	4582.4	1044.8	1446

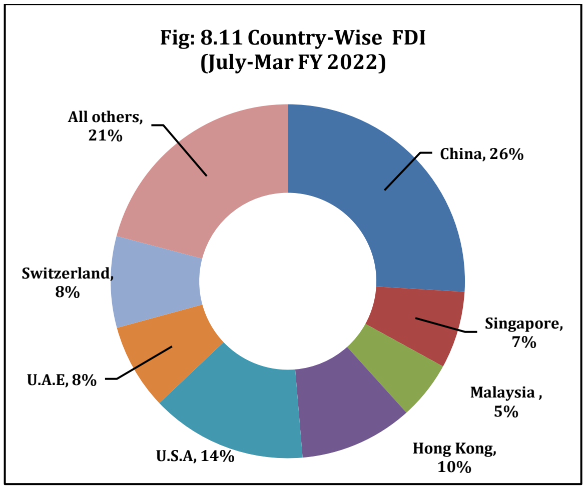
P: Provisional

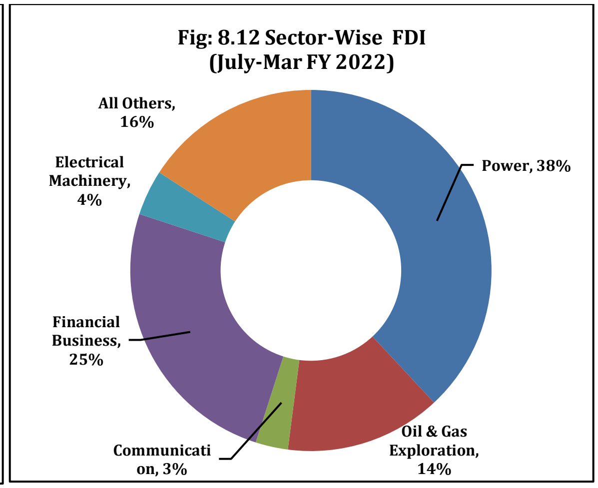
Source: State Bank of Pakistan

The sectoral breakdown shows that the telecom sector attracted a net FDI inflow US$ 92.3 million till February 2022. The inflow this year went into a cellular company, which made a partial spectrum license payment to the Government. However, in March 2022, net outflow of US$ 179.5 was recorded on account of divided paid by the cellular companies to their international owners. The information technology (IT) sector also attracted substantially higher inflows of US$ 118.5 million as compared to US$ 50.6 million last year; reflecting foreign investors' interest in the country's export- oriented IT services firms, whose recent export performance has been quite encouraging.

Country wise analyses suggests that, highest FDI received from China during Jul-Mar FY2022 US$333.5 million (26.0 percent of total FDI), United States US$ 183.1 million (14.2 percent), Hong Kong US$ 133.0 million (10.3percent of total FDI), Switzerland US$ 107.4 million (8.3 percent) U.A.E US$ 100.8 million (7.8 percent) and Singapore US$ 90.5 million (7.0percent).

[5] Investment Trend Monitor, Issue 40, January 2022, UNCTAD.





Considering sector-wise bifurcation Power sector attracted highest FDI of US$ 489.1 million (38.1 percent of total FDI) declined by 34.4 percent from US$ 746.2 million last year; as most of the power projects under the CPEC has already completed, FDI into power sector has been trending downwards over the past couple of years. Financial business with FDI US$322.8 million (25.1 percent), Oil & Gas exploration US$ 179.7 million (14.0 percent) and Information Technology US$ 118.5 million (9.2 percent).

BOI has taken several steps to increase FDI which are listed below:

- Improving business climate through initiatives such as Ease of Doing Business, Pakistan Regulatory Modernization Initiatives and other such reforms
- Supporting the establishment of SEZs to promote industrialization in the country.
- Online Investment Facilitation Services- like facilitating the issuance of Work Visa, approval of Branch/Liaison Office, Security Clearance and Issuance of Airport Entry Passes.
- Creation of Projects portal and Incentives portal on the BOI's website for the facilitation of potential investors.

Foreign Portfolio Investment (FPI)

The Foreign portfolio investment during Jul-Mar FY2022 witnessed a net inflow of US$162 million as against outflow of US$ 266.2 million the same period last year. The quarterly breakdown shows that Pakistan had raised US$ 1 billion from the tap issuance of a Eurobond in the first quarter (July 2021); repaid an older maturing Sukuk of US$ 1 billion in the second quarter (October 2021); and raised another US$ 1 billion by issuing a new Sukuk in Q3 (January 2022). However, in the wake of multiple adverse global and domestic developments – such as the outbreak of the Russia-Ukraine conflict; the US Fed's indications of more rapid monetary tightening; and domestic political uncertainty – around US$ 0.4 billion FPI outflows were recorded from local government securities (i.e. T-bills and PIBs) in March 2022. These outflows partially offset the inflows from the new Sukuk issued in January 2022. Meanwhile, FPI outflows from equities accelerated to US$ 341 million during Jul-Mar FY2022 from US$ 263 million last year, amidst intensifying external account challenges and domestic political uncertainty.

Reserves and Exchange Rate

The country's total foreign exchange reserves decreased by US$ 7.0 billion during Jul-Mar FY2022 and reached US$ 10.9 billion by end-March 2022. Most of the decline was noted in the SBP's reserves, which fell by US$ 5.9 billion to US$ 11.4 billion by end-March. SBP's reserves were marginally up during the Jul-Dec FY2022 period, mainly due to the sizable inflow of official loans and liabilities during this period, including the US$ 2.7 billion additional SDR allocations and US$ 3 billion in bilateral deposits from Saudi Arabia. Thereafter, a significant decline in the SBP's reserves was noted in Q3, mainly due to net official debt repayments; an elevated current account gap; and arbitration settlement payment for a mining case.

On the other hand, commercial banks' reserves declined by US$ 1.1 billion during Jul-Mar FY2022, with the reserves dropping during all three quarters. This was mainly due to an increase in trade financing extended by banks to exporters and importers, as well as a decline in FE-25 deposits.

The pressures in the external sector –reflected via the current account deficit – contributed to a weakening in the exchange rate, with the PKR depreciating 14.1 percent against the US Dollar during Jul-Mar FY2022. Importantly, currencies of many other emerging markets as well as advanced economies have been under pressure against the US Dollar in FY2022.The pressure of emerging market currencies intensified in Q3, as the US Federal Reserve raised its policy rate by 0.25 percent in March 2022 and signalling further monetary tightening in the coming months of 2022. As a result, the US Dollar Index rose by 6.4 percent during Jul-Mar FY2022.

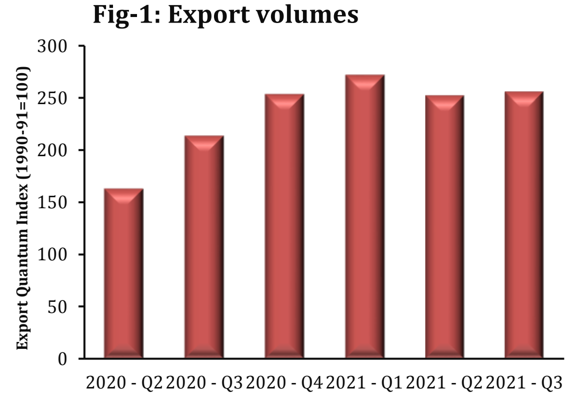
Box V: Recent Exchange Rate Developments

(i) Improvement in exports competitiveness.

Export competitiveness of Pakistan has remained intact during FY2022, because of which exports have grown by 26.6 percent during Jul-Mar FY2022 on Y/Y basis. The nominal as well as real exchange rate has depreciated. Particular, the Real Effective Exchange Rate (REER) depreciated by about 1.9 percent in Jul-Feb FY2022, which is an important determinant to support export volumes. This has helped to improve competitiveness as reflected by increase in volumes **(Fig-1)**.

The flexibility in exchange rate allowed for competitiveness of REER that helped lift exports despite surge in global oil prices. The elevated international commodity prices generally affect Pakistan negatively as surge in price increases input cost due to high import content in our exports. This could only be countered by a flexible exchange rate as adjustment in exchange rate according to market dynamics helps to improve competitiveness. Resultantly, the export volumes can be sustained or even improved. This is evident from the fact that Pakistan's exports volume steadily rose after Q2-2020[6]

Fig-1: Export volumes



Source: Volumes are from PBS

[6] Export volume data is available on quarterly basis till Q3-2021

(Fig-1), implying that market based exchange rate regime helped improved competitiveness.

Exports prices have also increased. Consequently, exports rose to US$23.7 billion in Jul-Mar FY2022 as compared with US$18.7 billion in the corresponding period of last year. Higher momentum in textiles contributed to increase exports, within which major contribution came from HVA items.

(ii) Qualitative and Quantitative Impact of Recent Depreciation on BoP and Overall, Economy

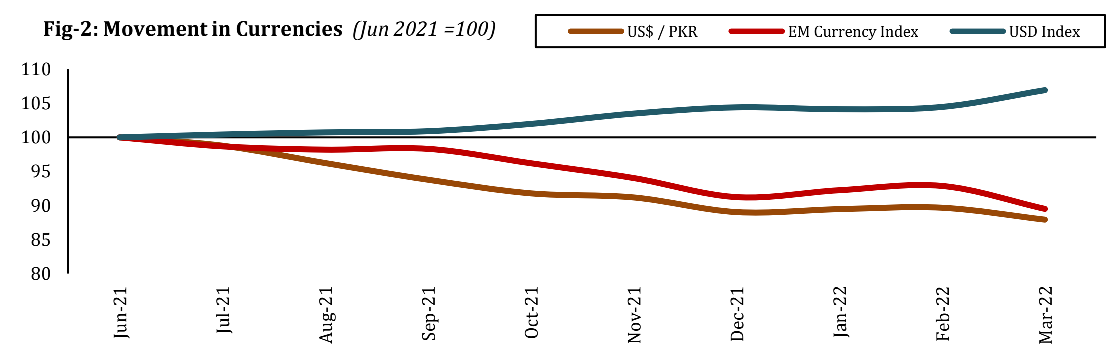
SBP has announced to embark on the market based flexible exchange rate regime from May 2019. This has helped SBP not only to build foreign exchange reserves from US$ 7.3 billion in June 2019 to US$ 16.4 billion at end March 2022 but also to reduce size of its forward swap book from US$ 8.0 billion in June 2019 to US$ 4.4 billion at end January 2022.

Despite the uncertainties of the COVID-19, market-based exchange rate regime helped the external sector to record marked improvement during FY2021.The current account deficit fell to US$1.9 billion (0.6 percent of the GDP) in FY21 from US$4.4 billion (1.7 percent of GDP) in FY20. This is the lowest deficit in 10 years with all-time high exports (US$25.6 billion) and workers remittances (US$29.4 billion). With the sharp rise in global commodity prices amid supply chain disruptions, however, current account deficit widened to US$12.1 billion during Jul-Feb FY2022. Exchange rate is continuing to play its role of shock absorber and as of 28th March 2022 is depreciated by around 13.5 percent since end June 2021. This depreciation together with other policy actions are expected to contain the current account deficit in the rest of FY2022 and FY2023. Despite adverse terms of trade shock, current account deficit (CAD) narrowed sharply to US$0.5 billion in February 2022, almost one fifth of US$ 2.5 billion in January 2022. This is a broad-based improvement as indicated by reduction of deficits in balances of goods and services, primary income and increase in secondary income[7].

(iii) A Comparative Analysis of Regional Countries' Exchange Rates

The Emerging Market (EM) currencies' strength highly depends on whether the country is a net commodity exporter or importer. In emerging economies, depreciation pressures continue to persist **(Fig-2)** in the wake of inflationary pressures emanating from commodity markets, pandemic induced supply chain issues and expectations of interest rate hikes by central banks of Advanced Economies. Higher interest rates induce reversal of capital flows and increase depreciating pressures on emerging market economies. High global commodity prices are translating into higher food prices and putting additional pressure on EM currencies.

Fig-2: Movement in Currencies *(Jun 2021 =100)*

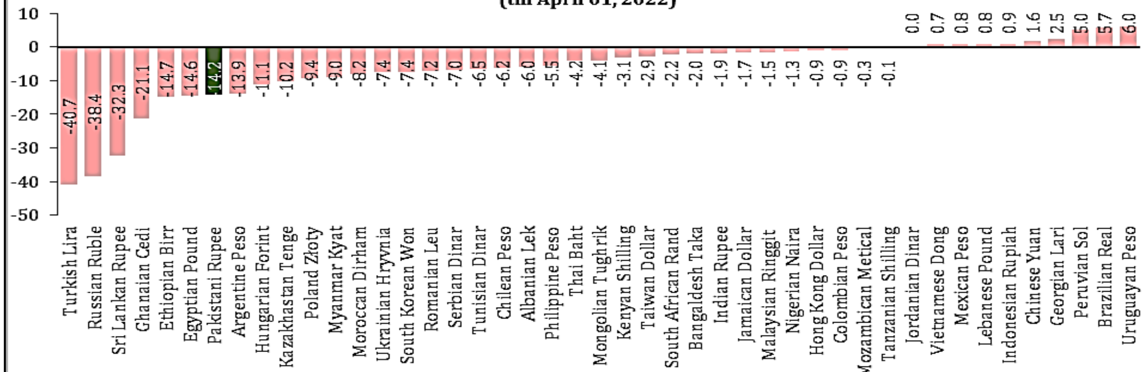


Source: Bloomberg, SBP staff calculation

Pakistan as a small open economy is no exception as during this fiscal year the Pak Rupee has depreciated by around 14 percent till 1st April 2022 like many other emerging market economies **(Fig-3)**.

[7]Mainly led by significant and broad-based contraction in imports and double-digit growth in exports, trade deficit fell to $2.3 billion in February 2022, around $1.5 billion lower compared with $3.8 billion in January 2022. Likewise, deficits in services and primary income narrowed to $284 million and $287 million in February 2022, from $485 million and $504 million in the preceding month. Secondary income (net) increased to $2,307 million from $ 2,275 million in the previous month.

Figure 3: Percentage Change in Exchange Rates during FY22 (till April 01, 2022)



Source: Bloomberg

(iv) Future Outlook of the REER and NEER in the Case of Exchange Rate Volatility

Outlook for REER generally depends on macroeconomic fundamentals and their deviation from equilibrium level as well as inflation differential between Pakistan and its trading partners. Given that inflation is also rising in our trading partners, the inflation differential is expected to narrow going forward. This will keep relative prices under check and NEER close to its current level. This means the REER may remain close to its current level. On the other hand, a balanced output gap that equates aggregate demand to aggregate supply in the economy and the fiscal deficit close to Pakistan's trading partners' average would also help keep REER competitive and supportive for exports in the medium term.

Source: State Bank of Pakistan

Conclusion

Though supportive measures helped in encouraging export performance during Jul-Mar FY2022. However, significant rise in imports bill due to broad-based surge in global commodity prices, COVID-19 vaccine imports, and demand-side pressures, all contributed in widening trade deficit by 55.5 percent (US$ 30.1 billion). Even ever-highest remittances of US$ 22.9 billion were unable to offset the highest trade deficit. Thus, Current account deficit recorded at US$ 13.2 billion during Jul-Mar FY2022 which was not been able to be financed by Financial Account. This in turn putting pressure on foreign reserves and exchange rate.

At on going inflation rate, there is still acceleration in the domestic demand. The high consumption expenditure and government spending has led to massive surge in imports. The depletion of foreign reserves is becoming vulnerable. The present government has to take difficult decisions specially to address structural issues, mobilized additional financing from friendly countries in the form of short- to medium-term loans, deferred payment on imported oil, etc. Further, resuming IMF program will expected to build market confidence.