

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

BOP/174

9 May 1977

Limited Distribution

Committee on Balance-of-Payments
Restrictions

Original: English

1977 CONSULTATION UNDER ARTICLE XVIII:12(b)
WITH PAKISTAN

Statement Submitted by Pakistan Under the
Simplified Procedures for Consultation¹

Balance-of-payments position 1975-76

After a progressive deterioration in the preceding three years, the balance of payments registered some improvement during 1975-76. This improvement in the balance of payments was realized despite a sizeable drop in cotton production and substantial decline in the prices of rice in the international market which adversely affected export earnings from these two principal export commodities. The current account deficit amounted to Prs 8,815 million in 1975-76 as compared to Prs 10,531 million in 1974-75. The reduction in the deficit was the combined result of higher export earnings, slower growth in import payments and a considerable increase in invisible earnings. Export earnings rose by about 17 per cent in 1975-76 as against the decline of 3.6 per cent in the preceding year. Expenditure on imports, on the other hand, increased by 1.2 per cent. The marginal rise in imports during 1975-76 needs to be viewed in the context of a much larger increase of about 42 per cent recorded in 1974-75. The current account deficit was, however, largely offset by a net inflow of Prs 8,071 million under capital transactions and the overall balance of payments recorded a deficit of Prs 114 million during 1975-76 as against the deficit of Prs 1,527 million in the preceding year. Notwithstanding an overall deficit of Prs 114 million the gold and foreign exchange reserves, held and controlled by the State Bank of Pakistan, increased by Prs 1,273 million, to Prs 6,085 million, at the end of June 1976 and reflected mainly sizeable drawings amounting to SDRs 135.1 million from the IMF and substantial cash assistance from friendly countries.

Export earnings (on a mixed c. & f. and f.o.b. basis) amounted to Prs 11,683 million during 1975-76 as compared to Prs 9,987 million in the preceding year showing an increase of about 17 per cent. The improvement in the export performance was largely attributable to the reversal of international recession which

¹L/3772/Rev.1

began in the second half of 1975 and the upturn in world trade in early 1976. This was observed in increased quantities of exports of most of the commodities and improvement in the unit values of our principal items of exports, except rice and cotton fabrics.

The item wise break-up of exports revealed that earnings from rice at Prs 2,246 million during 1975-76 were Prs 237 million higher compared to the preceding year. The increase in earnings from rice occurred despite sharp falls in international prices of rice and contributed 19.2 per cent of total export earnings. Cotton yarn and thread contributed Prs 1,581 million to export earnings during 1975-76 as against Prs 935 million in 1974-75, denoting an increase of Prs 646 million or 69.1 per cent. The rise was attributable both to increase in quantity exported and the unit price. Receipts from cotton fabrics also increased from Prs 1,209 million to Prs 1,386 million during 1975-76, contributing 11.9 per cent of the total export earnings as against 12.1 per cent in the preceding year. The increase in earnings from cotton fabrics was entirely attributable to a rise in the quantum of exports as the average export price declined. Other items recording significant increase in earnings were: floor coverings, tapestries etc. (+ Prs 266 million), leather and manufactures thereof (+ Prs 147 million), clothing (+ Prs 106 million) and petroleum and petroleum products (+ Prs 40 million).

As against the increased earnings under the above items, receipts from raw cotton declined from Prs 1,441 million in 1974-75 to Prs 1,277 million in 1975-76 representing a decline of 11.4 per cent. The decline in earnings was due entirely to a fall in the production of raw cotton. Lower production in the face of pick-up of demand both at home and abroad necessitated temporary suspension of raw cotton exports. Other items recording decline in earnings were: lime cement and fabricated building materials (- Prs 137 million), sports goods (- Prs 11 million), machinery (- Prs 15 million) and tobacco and tobacco manufactures (- Prs 11 million).

Imports (f.o.b.) including aid and loan-financed imports, amounted to Prs 21,180 million in 1975-76, registering a modest rise of 1.2 per cent over the preceding year compared with the rise of about 42 per cent in 1974-75. The slow growth in imports was attributable almost exclusively to lower average import prices of several major import items.

Invisible earnings¹ totalled Prs 7,807 million during 1975-76 as compared to Prs 6,434 million in the preceding year, denoting an increase of 21.3 per cent. Invisible payments aggregated Prs 6,329 million in 1975-76 as compared with Prs 5,713 million in the preceding year, showing an increase of 10.8 per cent.

¹Include unrequited transfers but exclude non-monetary gold.

The improvement in invisible earnings resulted chiefly from "Unrequited Transfers" which increased by 45.2 per cent to Prs 4,865 million and constituted 62.3 per cent of total invisible earnings. The sharp increase in net inflow under "Unrequited Transfers" was largely attributable to appreciable increase in remittances by Pakistani workers abroad particularly from Middle Eastern countries.

Total utilizations of foreign loans and credits by the private, local governments and central government sectors amounted to Prs 9,251 million during 1975-76 as against Prs 9,146 million in 1974-75. Repayments of foreign loans credits by the private, local and central government sectors stood at Prs 1,634 million in 1975-76 as against Prs 1,408 million in 1974-75. The interest paid on foreign debts amounted to Prs 1,215 million during 1975-76 as compared to Prs 877 million in the preceding year. Pakistan also made use of Fund assistance aggregating the equivalent of SDRs. 135.1 million during the year. Payments to IMF both on account of repayments of principal and charges stood at Prs 558 million.

The balance-of-payments data available only for July-September 1976 revealed that the current account recorded a deficit of Prs 2,149 million during July-September 1976 as compared with the deficit of Prs 1,936 million in the preceding quarter and of Prs 2,913 million in the corresponding quarter of 1975-76. The widening of deficit during the quarter under review, compared with the preceding quarter was entirely attributable to the enlargement of deficit on merchandise account as the deficit under service transactions narrowed and net receipts under Unrequited Transfers increased during the quarter. After taking into account a net inflow of Prs 2,232 million under capital transactions, the overall balance of payments recorded a surplus of Prs 83 million as against the deficit of Prs 653 million in the preceding quarter and of Prs 21 million in the corresponding quarter of 1975-76. The gold and foreign exchange reserves, held and controlled by the State Bank of Pakistan increased by Prs 565 million to Prs 6,650 million at the end of September 1976. The larger increase in reserves than overall surplus is mainly attributable to the fact that Pakistan drew an equivalent of SDRs 72.5 million from the IMF under the Compensatory Financing Facility and repaid an equivalent of SDRs 42 million to the Fund in connexion with the repayment of stand-by arrangement of 1972.

Export receipts (on a mixed c. & f. and f.o.b. basis) declined from Prs 2,869 million in April-June to Prs 2,618 million in July-September 1976. The break-up of exports revealed that the earnings from almost all the major export items recorded decline. The fall in export earnings was particularly pronounced in the case of rice, cotton and cotton manufactures. Export receipts from rice stood lower at Prs 529 million during July-September 1976 as against Prs 703 million in the preceding quarter. The contraction was almost entirely attributable to the

reduction in the average export prices. Export receipts from cotton aggregated Prs 54 million during July-September 1976 as against Prs 183 million in April-June 1976. The fall in earnings from this item was entirely attributable to a substantial decrease in the quantum of exports. Receipts from cotton manufactures at Prs 743 million during July-September 1976 was also Prs 73 million lower compared to the preceding quarter. The decrease which was shared both by cotton yarn and thread and woven fabrics was almost entirely attributable to reduced volume of exports of both these items. Other important items recording lower earnings were: petroleum and petroleum products (- Prs 69 million), floor coverings, tapestries etc. (- Prs 33 million), chemicals (- Prs 24 million) and clothing not of fur (- Prs 10 million).

Imports (f.o.b.), including aid and loan-financed imports, increased from Prs 5,224 million in April-June to Prs 5,341 million in July-September 1976. At this level these, were, however, Prs 515 million lower compared to the corresponding quarter of 1975-76.

Invisible earnings¹ aggregated Prs 1,970 million July-September 1976 as compared to Prs 1,885 million in the preceding quarter, denoting an increase of Prs 85 million or 4.5 per cent. Invisible payments totalled Prs 1,341 million as compared with Prs 1,753 million in the last quarter of 1975-76 showing a decline of 23.5 per cent. The increase in earnings was entirely attributable to a rise of Prs 183 million in "Unrequited Transfers", partly offset by a decline of Prs 98 million in receipts from service transaction.

The utilizations of foreign loans/credits by the private, local governments and central government sectors totalled Prs 2,596 million in July-September 1976 as against Prs 1,407 million in the preceding quarter. Repayments of foreign loans/credits by these sectors aggregated Prs 186 million as against Prs 416 million in the preceding quarter. The interest paid on foreign debts during July-September 1976 stood at Prs 213 million and payment of service charges to IMF was of the order of Prs 70 million.

Import policies 1975-76

The import policy for the fiscal year 1975-76 continued to maintain the liberal bias introduced in mid-1972. The primary aim of the policy was to make full use of the existing industrial capacity and to further expand productive capacity. As in the past, imports were permissible under (a) a Free List and (b) a short Tied List. The Free List (in three parts) consisted of 389 items mostly industrial raw materials, spare parts and machinery and Tied List comprised

¹Include Unrequited Transfers but exclude non-monetary gold.

twenty-nine items which were to be financed from barter and credit. Two important changes were, however, made in the policy. First, the monetary ceilings for import of machinery for balancing, modernization and replacements were raised from Prs 0.5 million to Prs 0.75 million in case of imports against cash and revised to Prs 1.5 million in the case of imports under barter and credit. Second, the import of ball-bearings, which was only allowed from the tied sources was transferred to the Free List. The transfer was, however, confined only to the types and specifications of ball-bearings which were not manufactured in Pakistan.

Import policies 1976-77

The import policy for the fiscal year 1976-77, announced by the Federal Government on 1 July 1976 maintains liberal provision for the import of capital goods and essential industrial raw materials with a view to raising the level of output and accelerate the pace of capital formation in the country. Import of certain essential consumer and durable goods have also been liberalized in order to mitigate the problems of consumers and eradicate the evil of smuggling of these goods into the country. As in the previous policy, the permissible items are importable under the Free and Tied Lists. The main changes introduced through the new import policy are as follows: the Free List has been expanded to include 407 items as against 389 items previously on this List and Tied List reduced from twenty-nine to eighteen. Out of 407 items, thirty-four items are importable by public sector agencies. Among the public sector agencies Trading Corporation of Pakistan has been empowered to import eleven items including coal and coke, iron and steel items, items of non-ferrous and ferrous metals and newsprint paper. Butter, edible and vegetable oils are imported by Pakistan Edible Oil Corporation. The annual monetary limit up to which licences may be issued for import of machinery and mill-work for balancing, modernization and replacement has been raised from Prs 0.75 million to Prs 1.5 million in the case of cash and from Prs 1.5 million to Prs 2.0 million in the case of barter and credits. Some of the items under the heading "Tools and Workshop Equipment" which were on the Tied List or were not importable into Pakistan have been placed on the Free List. Certain essential industrial raw materials such as tallow, palmyra-fibre for manufacturing brushes etc., which were previously on the Tied List or were not importable in the country have been placed on the Free List. Three important raw materials viz., aluminium sheets and plates, copper tubes and pipes and galvanized iron and steel sheets which were previously in part "B" of the Free List have been transferred to Part "A" of the said List.¹ Some consumer goods² the import of which banned previously and which were being smuggled into the country in large quantities were also placed on the Free List.

¹Free List consists of three parts: "A" comprises items importable by all registered importers. "B" covers items exclusively importable by industrial consumers and items importable by Public Sector Agencies are listed under "C".

²Air conditioners of all sizes, refrigerators and deep freezers of all sizes, tape-recorders and cassette players, sanitary wares and enamelled bath tubs, electric lighting bulbs and tubes, earthen China or porcelain table ware, aluminium/enamelled iron wash basins and sinks, dry battery cells, nickel cadmium cells and razor sets and razor blades.

**WE REGRET THAT SOME OF THE PAGES IN THE MICROFICHE COPY
OF THIS REPORT MAY NOT BE UP TO THE PROPER LEGIBILITY STANDARDS:
EVEN THOUGH THE BEST POSSIBLE COPY WAS USED FOR PREPARING
THE MASTER MICROFICHE.**

PAKISTAN'S BALANCE OF PAYMENTS

Overall

(Rupees in 100.000)

Items	July 1975-June 1976			July 1974-June 1975		
	Credit	Debit	Net credit	Credit	Debit	Net credit
A. Goods and services						
(1 through 8)	1,445.91	2,732.48	-1,286.57	1,276.07	2,659.23	-1,383.17
1. Merchandise	1,150.47	2,117.99	- 967.52	967.82	2,093.04	-1,125.22
2. Non-monetary gold	1.26	-	+ 1.26	-	-	-
3. Freight and insurance on international shipments	1.15	199.41	- 198.26	1.64	205.95	- 204.31
3.1 Freight	-	189.62	- 189.62	-	195.94	- 195.94
3.2 Insurance	1.15	9.78	- 8.63	1.64	10.01	- 8.36
4. Other transportation	124.21	58.95	+ 65.26	128.08	54.74	+ 73.33
5. Travel	34.63	58.19	- 23.56	27.25	45.41	- 18.17
6. Investment income	28.12	171.47	- 143.35	37.04	133.74	- 96.70
7. Government n.i.e.	46.33	75.02	- 28.68	39.56	67.28	- 27.73
8. Other services	59.75	51.47	+ 8.28	74.66	59.05	+ 15.62
8.1 Non-merchandise insurance	1.29	7.18	- 5.89	1.24	4.10	- 2.86
8.2 Other	58.46	44.28	+ 14.18	73.43	54.95	+ 18.48
B. Unrequited Transfers						
(9 plus 10)	486.50	18.41	+ 468.09	335.15	5.07	+ 330.08
9. Private	349.34	0.44	+ 349.41	227.62	0.52	+ 227.11
10. Government	136.66	17.98	+ 118.68	107.52	4.55	+ 102.97
C. Allocation of SDRs	-	-	-	-	-	-
D. Capital and monetary gold						
(a plus b)	1,254.75	427.58	+ 827.18	1,282.13	243.63	+1,038.49
(a) <u>Non-monetary sector</u>						
(11 through 14)	1,056.08	249.00	+ 807.09	1,051.58	151.21	+ 900.36
11. Private long-term	180.78	42.69	+ 138.09	143.43	48.68	+ 94.75
11.1 Direct investment	30.26	7.99	+ 22.28	12.96	0.37	+ 12.58

Items	July 1975-June 1976			July 1974-June 1975		
	Credit	Debit	Net credit	Credit	Debit	Net credit
11.2 Other long-term	23.00	4.54	+ 18.46	10.33	8.12	+ 2.21
11.6 Loans	127.51	30.16	+ 97.35	120.14	40.18	+ 79.96
12. Private short-term (other than direct investment)	77.71	24.14	+ 53.57	0.12	-	+ 12
13. Local governments	210.08	29.48	+ 180.60	122.55	35.14	+ 87.41
14. Central Government	587.51	152.69	+ 434.83	785.48	67.40	+ 718.08
14.4 Long-term loans	587.51	103.77	+ 483.75	671.89	65.45	+ 606.44
14.5 Other long-term assets and liabilities	-	2.64	- 2.64	-	1.95	- 1.95
14.6 Other short-term assets and liabilities	-	46.28	- 46.28	113.59	-	+ 113.59
(b) <u>Monetary sector</u> (15 plus 16)	198.68	178.58	+ 20.10	230.55	92.42	+ 138.14
15. Central monetary institution	155.46	178.58	- 23.12	211.96	92.42	+ 119.54
15.1 Accounts with IMF	134.12	-	+ 134.12	199.02	-	+ 199.02
15.2 Marketable assets	21.24	-	+ 21.24	-	21.34	- 21.34
15.3 Deposits - assets	-	140.26	- 140.26	-	71.08	- 71.08
- liabilities	0.09	-	+ 0.09	0.05	-	+ 0.05
15.6 Gold	-	1.26	- 1.26	-	-	-
15.7 Special drawing rights	-	37.06	- 37.06	12.89	-	+ 12.89
16. Other monetary institutions - deposits	43.22	-	+ 43.22	18.59	-	+ 18.59
- assets	17.18	-	+ 17.18	0.66	-	+ 0.66
- liabilities	26.04	-	+ 26.04	17.93	-	+ 17.93
E. <u>Errors and Omissions net</u>	-	8.70	- 8.70	14.59	-	+ 14.59