GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

BOP/W/143
9 March 1992

Limited Distribution

Committee on Balance-of-Payments Restrictions

1991 CONSULTATION WITH PAKISTAN (SIMPLIFIED PROCEDURES)*

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes adopted by the CONTRACTING PARTIES on 28 November 1979 (BISD 26S/205-209) to assist the Committee in taking the decision referred to in paragraph 8 of that Declaration. It updates the paper prepared for the 1989 consultation (BOP/W/124).

I. Previous consultations with Pakistan

2. Since 1950, the Committee has held eleven full consultations with Pakistan (the last full consultation was held in 1989). Seven simplified consultations have been held in 1973, 1975, 1977, 1980, 1982, 1985 and 1987.

3. At the last full consultation, held on 17 April 1989, the Committee recognized that Pakistan continued to face serious balance-of-payments difficulties which warranted the invocation of Article XVIII:B. It also recognized that in the period under review, and particularly since 1987, Pakistan had taken major steps in adjusting imbalances in its economy, reducing import restrictions, and rationalizing its tariff structure. The Committee welcomed the statements by Pakistan and the IMF concerning the Pakistan authorities' policy of continuing the process in the medium term. It took note of the justifications mentioned by Pakistan for the maintenance of remaining import restrictions.

4. The Committee noted that Pakistan would notify to GATT, by November 1989, an updated list of the import restrictions maintained by it for balance-of-payments purposes. With respect to import prohibitions, the Committee recalled the provisions of Article XVIII:10 relating to minimum commercial quantities of imports, while also noting the provisions of paragraph 1 of the 1979 Declaration.

5. The Committee noted that Pakistan's exports remained highly concentrated in the three sectors of rice, cotton and textiles and clothing. It observed that this high concentration made Pakistan's trade, growth and investment possibilities particularly vulnerable to external distortions and restrictions. The Committee invited Pakistan to seek

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* Postponed from November 1991 (BOP/R/196)

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greater diversification of export products and markets, while, at the same time, recognizing the short-term difficulties involved. The Committee noted that, for the longer term, the current negotiations in the Uruguay Round offered a significant opportunity for alleviating distortions and constraints in external markets. Pending that, and bearing in mind the provisions of the preamble and paragraph 12 of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes, and taking into account the particular structure of Pakistan's exports, the Committee recommended contracting parties to give particular attention to the possibilities of alleviating and correcting the balance-of-payments problems of Pakistan through measures which they might take to facilitate an expansion of Pakistan's export earnings (BOP/R/181).

II. Main changes in Pakistan's trade and exchange policies since the last consultation

6. Under the macroeconomic adjustment and structural reform effort initiated in mid-1988, the Pakistan authorities embarked on a comprehensive medium-term programme of trade liberalization and tariff reduction and rationalization (BOP/W/124 paragraph 12). Reform measures continued within the annual budgets and trade policy orders announced in June 1989, June 1990 and July 1991. The major medium-term objectives of these reforms are to replace most non-tariff barriers by tariff protection; to reduce the maximum levels of ad valorem customs duty rates and rationalize the structure of customs duties; and to increase the ceilings on the value of certain types of imports.

7. In the 1989/90 Import Policy Order (IPO), 70 categories of goods were removed from the negative list, thereby reducing the list to 215 categories. The items removed from the negative list included milk and milk products, certain vegetables and fruits, certain cereals, bread and other prepared foods, paints and varnishes, soap, wood works, stationery, tiles, cabinets, parts and accessories for bicycles, and certain furniture. Most of the remaining products on the negative list were for health or religious reasons, security measures, reciprocity factors, international agreements, or balance-of-payments reasons.

8. A number of products were also removed from the restricted list, thereby reducing its coverage to 105 categories of items. Products remaining in the restricted list were classified as follows: (i) 16 categories related to goods importable only by public sector agencies; (ii) 4 categories importable only by industrial consumers; (iii) 30 categories related to imports under specific conditions; (iv) 52 categories importable from specified sources; and (v) 3 categories under quantitative restrictions.

9. The 1990/91 Import Policy Order removed 97 categories of items from the negative list. In November 1990, one further category (waste and second cutting of stainless steel sheet and plates) was removed and another (hazardous waste) was added on the list, thus leaving, as of 30 April 1991, 118 categories of items on the negative list.

10. The coverage of the restricted list was also reduced by removing from it 45 categories of products. Items that became freely importable included safety matches, cords, tubes and pipes, articles of hard rubber, knitting yarn wool, stoves and burners gas water heaters, hand tools, batteries, ovens, toothbrushes, electric appliances, and electric accumulators. In December 1990, soybean oil was also removed from the restricted list. Most products removed from the restricted list fell within the category of items importable from specified sources.

11. In the context of the 1989/90 budget, some adjustments were made to the tariff system. A large number of specific duty rates (154 out of 314 items) were converted to ad valorem rates. Specific duty rates were raised on some of the remaining goods in line with the decision to change specific rates periodically to maintain their ad valorem equivalence (indexation of specific duties). Other adjustments in the tariff system included the restructuring of duties on certain items such as paper and paperboard, contact lens solution, bits, spare parts for construction machinery, compressors, bicycle parts; and the elimination of disparities between specific duty rates on remeltable scrap metal and ships for scrapping. Customs duty concessions for "key industries" were limited to five industries (electronics, biotechnology, fibre optics, solar energy, and fertilizers) as opposed to 42 before, while some additional customs duty concessions and exemptions were granted.[1]

12. In 1988/89, the import surcharge was raised from 5 to 7 per cent, while the Iqra surcharge (education tax) and the import licensing fee were maintained at 5 per cent. The tariff structure was again modified in June 1990 and later in January 1991. In June 1990 the rate on 270 items was reduced from 125 to 100 per cent and in January 1991 the authorities reduced the maximum tariff rate to 95 per cent. In the budget 1991/92, the maximum tariff rate was further reduced to 90 per cent excluding some items falling under HS chapters 22 (beverages and spirits) and 87.03, 87.06 to 87.08 (parts, bodies and chassis of motor vehicles). In July 1990, the

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[1]The measures included increases in customs duties for such products as carbon blocks, chemicals, cotton yarn, refrigerators and freezers, autofillers, and circuit boards; or reductions in other products such as inputs for the pharmaceutical industry , vitamins and provitamins for the poultry feed industry. The customs duty on refined sugar was also abolished.

import surcharge was again raised to 10 per cent and the import licensing fee to 6 per cent.

13. Another liberalization move made by Pakistan was an increase in ceilings for certain imports. In July 1989, the ceilings for imports of machinery and millwork were increased by 33 per cent from 12 to 16 million rupees for commercial imports and by 43 per cent to one billion rupees for new units or expansion of existing units for industrial imports. For imports by actual users, the cash value ceiling was raised by 250 per cent to 25,000 rupees. With the 1990/91 IPO, the value ceilings on imports of machinery and millwork against cash licenses were further increased by 25 per cent across the board, and the monetary limit on imports by actual users was raised from 25,000 to 44,800 rupees.

14. In March 1991, Pakistan notified to the GATT Secretariat the list of import restrictions maintained for balance-of-payments purposes (L/6830). The list includes 77 categories of products (761 tariff items classified at 8-digit level on the basis of the Harmonized Coding System). Sixty-six categories belong to the negative list and the rest (11 categories) to the category of goods importable from specified sources.

III. Trade régime of Pakistan as at mid-1991 (1991/92 Import Policy Order)

(i) Import licensing

15. All imports into Pakistan are subject to licensing, except for the import of "freely importable items". The import licensing requirement for freely importable goods was abolished on 1 March 1991. Importers of these items can approach banks directly to open letters of credit. However, they still have to pay a 6 per cent license fee. According to the 1991/92 IPO, the Government may temporarily or permanently suspend, whenever it deems necessary in the public interest, the importation of goods so as to prevent dumping, speculation, exaggerated imports, formation of monopolies and the exploitation of consumers, or restrict imports from countries resorting to discriminatory measures against Pakistan's exports.

16. Licences, which are valid for generally 12 months, are issued on the basis of notification by the Chief Controller of Imports and Exports. Licensing restrictions apply only to arms and ammunition.

(ii) Import restrictions (the negative and restricted lists)

17. The negative list in the Import Policy Order designates items prohibited for import into Pakistan, unless specifically authorized. This list in principle consists of items banned for religious, health, safety or

luxury consumption reasons; and goods that are banned in accordance with international agreements. The negative list includes 93 categories of items.

18. The restricted list of items in the 1991/92 IPO is subdivided into four sections: (i) 7 categories of goods importable only by public sector agencies, including goods such as coal and coke, transmission apparatus, certain motor vehicles and aircraft; (ii) 7 categories of goods importable only by industrial consumers, including goods such as acetic anhydride, industrial diamonds, transport vehicles in CKD condition and ingredients for pesticides; (iii) 33 categories of goods whose importation is subject to specific requirements or conditions such as health and safety requirements, standards or packaging and labelling requirements; and (iv) goods which can be imported only if the products are identical with the approved makes and models, listed in Annex B of the IPO. These include agricultural tractors and some motor vehicles (trucks, buses, light commercial vehicles, ambulances). Imports of some oils, pharmaceutical raw materials, drugs, maps, secondhand clothing, gold and electric apparatus for line telephony or line telegraphy are subject to different procedural requirements.

19. The 1991/92 IPO increased the ceilings for imports of machinery and millwork from 16 to 25 million rupees for commercial imports. According to the rules laid down by the 1991/92 IPO relating to imports of 12 product categories by actual users, if the value of specified imported products exceeds US$2,000, the importer has to submit to the licensing authority an undertaking that the goods imported are for their own use only.

20. Quantitative restrictions apply to only three categories of items including firearms and ammunition (6 tariff items classified at 8-digit level on the Harmonized System basis).

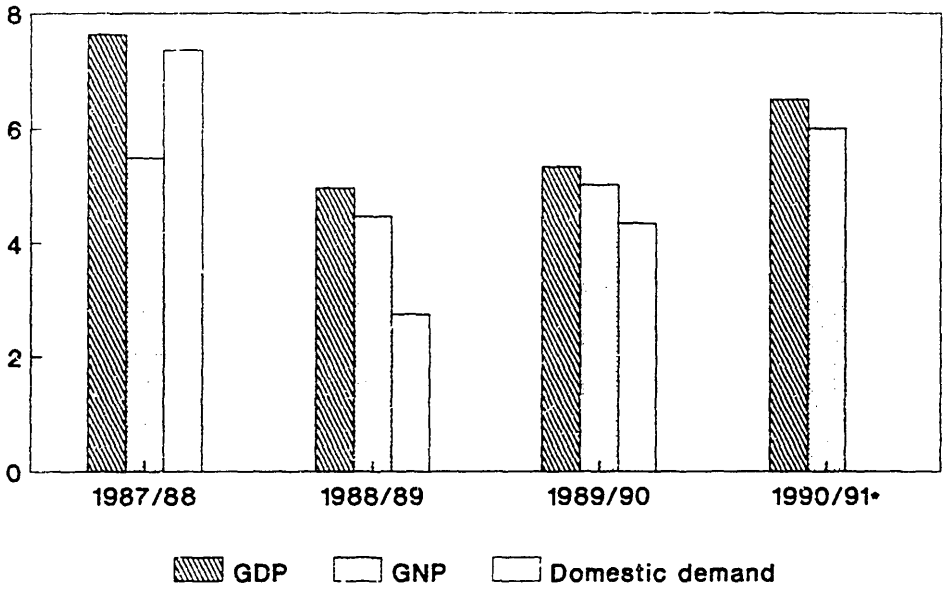
(iii) Tariffs and other import charges

21. The most common range of duties in most sections is from 10 to 125 per cent. There are a few statutory rates of duty above 125 per cent, and only motor vehicles and motorcycles have duties at 150, 225 or 425 per cent depending on the vehicle's engine size. Most duties are ad valorem, although some items are assessed specific duties according to weight or quantity. A number of categories and specific items can be imported duty free.

22. In addition to tariffs, Pakistan applies a variety of charges. All imported items are subject to a sales tax of 12.5 per cent. The Iqra surcharge (education tax) of 5 per cent and a "regulatory duty" of up to 100 per cent apply to a variety of imported goods. Most imports are also

subject to an import surcharge which has been increased from 7 to 10 per cent as part of the 1990/91 budget. A 6 per cent fee applies to all imports subject to the licensing requirement.

Chart 1 - Pakistan - Real GDP,GNP and domestic demand
(Annual percentage change)



• Domestic demand not available
Source: IMF

IV. Exchange liberalization

23. On February 1, 1991 the government of Pakistan began implementing a number of measures aiming at liberalizing the exchange and trade system. Measures related to the exchange rate system included increasing the availability of foreign exchange for certain invisible transactions; introducing Dollar Bearer Certificates; and liberalising the rules applicable to the holding of foreign currency accounts by residents.

V. Economic and trade developments

(i) Aggregate supply and demand

24. Real GDP growth in Pakistan economy decelerated to 5 per cent in 1988/89 from 7.6 per cent in 1987/88 (Chart 1).[2] The slowdown resulted largely from the sharp decline in the growth of the large-scale

[2]References are to fiscal years which run from July 1 to June 30.

manufacturing sector to about 2½ per cent (it was more than 10½ per cent in 1987/88), and from the more moderate growth of the services sector (3.8 per cent against 6.8 per cent in 1987/88). Favourable weather conditions boosted agricultural output growth to 7 per cent. The share of domestic investment in GDP increased due to better government implementation of the public sector investment programme and an improved business climate. Despite the deterioration in Pakistan's terms of trade in 1988/89 and the reduction in workers' remittances from abroad, the ratio of domestic savings to GDP rose to more than 11½ per cent.

25. In 1989/90, real GDP growth accelerated marginally to 5.3 per cent. Despite increases in crop procurement prices, agricultural output recorded a significant slowdown with a growth rate of less than 3 per cent. Lower yields and smaller cultivated areas were largely responsible for the slower growth. Industrial output grew by 5.7 per cent as the large-scale manufacturing sector recovered after the downturn of the previous year. The small-scale manufacturing sector, in contrast, continued its rapid growth mainly as a result of the good performance of cotton-based manufacturing. Growth in construction activities of more than 3 per cent was still below the expected level due to financing difficulties. Electricity, water and gas production picked up. Growth in the service sector accelerated to nearly 5 per cent, notably in wholesale and retail trade, transportation and communications. In 1989/90, as public sector investment was restricted, the ratio of gross domestic investment to GDP declined marginally to 17 per cent. The liberalization of foreign direct investment and the provision of incentives for investment included in the Government's New Industrial Policy Package of July 1989, partly explain the rise in private gross fixed capital formation. Despite the fiscal adjustment during 1989/90, the ratio of domestic savings to GDP was stable at 11½ per cent.

26. Real GDP growth in 1990/91 was of the order of 6½ per cent. Agricultural production is expected to have performed well and manufacturing growth is expected to have accelerated slightly to around 6 per cent.

(ii) Prices

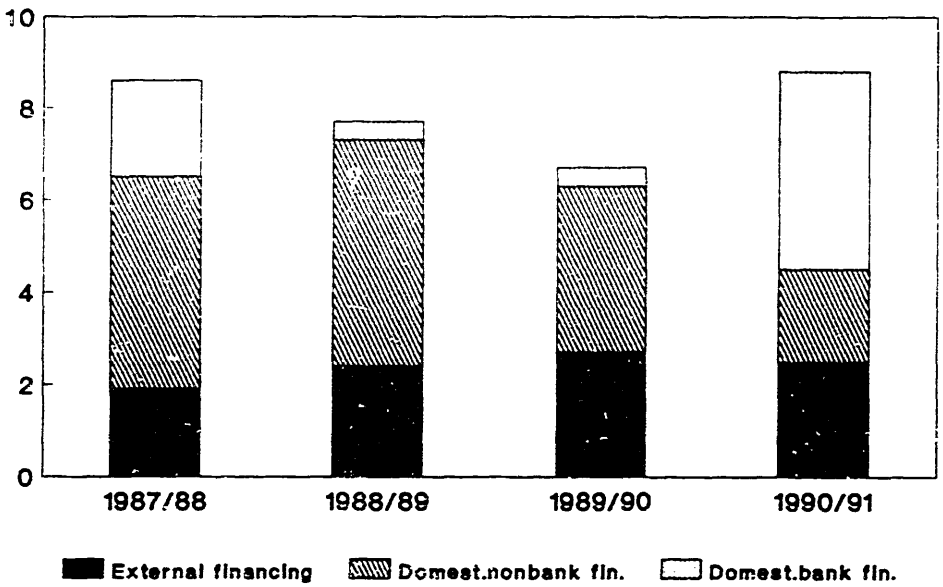
27. In 1988/89, inflation as measured by the annual average CPI accelerated to 10½ per cent as a result of the effect of a combination of excess liquidity from 1987/88, the slowdown in the industrial sector, the floods that occurred in the second half of 1988 and political uncertainties. Following the adoption of a tight monetary stance adopted in 1988/89 and in the first three quarters of 1989/90, CPI annual growth decelerated to 6 per cent in 1989/90. However, during the second half-year of 1989/90, inflation accelerated again as administered prices for

fertilizers, natural gas, petroleum products, wheat and electricity were adjusted upward. In 1990/91, the rise in petroleum and energy-related prices and in agricultural prices together with a larger than expected increase in the GDP deflator due to a more accommodative demand management policy, raised inflation to an annual rate of 12.7 per cent.

(iii) Public finance

28. The public sector of Pakistan comprises the Federal Government, the four provincial governments and four autonomous bodies. In 1988/89, the overall fiscal deficit of the public sector declined to 7.6 per cent of GDP as tax and non-tax revenue (including the surplus of automonous bodies) rose to 19 per cent and total expenditure and net lending fell by 0.5 per cent of GDP to 26½ per cent. (Chart 2) The share of the deficit financed from external sources increased substantially while the share of domestic bank financing declined. In July 1988, the Pakistan authorities

Chart 2 - Pakistan - Overall fiscal deficit and its financing
(Percentage of GDP)



Source: IMF

initiated a structural reform programme to reduce fiscal imbalances which included expenditure restrictions, measures to improve tax administration, and an increase in fiscal revenue.[3]

29. Provisional figures for the fiscal year 1989/90 show an overall fiscal deficit of 6.4 per cent of GDP against a programmed target of 6.3 per cent. Following the application of new fiscal measures to broaden the direct and indirect tax bases, total revenue (including the surplus of autonomous bodies) rose to 19 per cent of GDP. External financing of the overall fiscal deficit was less than expected due to delays in the reception of aid from the Asian Development Bank. Nevertheless, the share of external financing rose, in contrast to domestic bank financing, whose share declined. Non-bank financing exceeded its target.

30. In 1989/90, the authorities continued taking measures to strengthen tax administration and broaden the direct and indirect tax base. On the revenue side, some public fares were increased and international trade tariffs were adjusted upwards. On the expenditure side, pressure on provinces to improve their fiscal position continued. In addition, discipline in expenditures at a federal and provincial level was tightly enforced.

31. In 1990/91, the public sector budget projected a further reduction of the overall fiscal deficit to 5.8 per cent of GDP. This was to be achieved through an increase in revenue by measures including elimination of certain tax exemptions, introduction of a General Sales Tax, taxation of some services activities, a 3 per cent increase in the import surcharge and a 1 per cent rise in the import licence fee. Fares on public utilities were also increased. The government also continued measures to contain unproductive expenses and to force provincial governments to rely more on their own revenue sources and contain expenditures. However, in 1990/91, the budget results deteriorated due to the sharp rise in international prices of petroleum and a delay, until November 1990, in implementing the increase domestically. This depressed revenue collection from the net development surcharge on petroleum. Total revenue fell to 16.6 per cent of GDP. Overall expenditure, in contrast, was mainly as expected. As a result, in 1990/91, the fiscal deficit increased to 8.8 per cent of GDP. A further increase in bank financing of the fiscal deficit has been reported.

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[3]On the revenue side, new taxes were put in place, a number of tax exemptions were eliminated, the income tax base was broadened, import tariffs were reduced and public sector fares raised. On the expenditure side, measures included restrictions on indexation of civil servants salaries, reduction of subsidies for fertilizers, and the continuation of reductions in development expenditures.

(iv) Money and credit

32. Pakistan's banking system comprises the central bank (State Bank of Pakistan), 24 commercial banks (5 nationalised commercial banks and 19 foreign banks) and 4 government-owned specialised banks. The commercial banks and the specialised banks constitute the group of scheduled banks. Pakistan's financial sector has been characterised by excessive controls which have affected negatively the allocation of capital, reduced significantly banks' profits, helped expand the informal credit market, reduced the supervisory power of the State Bank of Pakistan, and provoked a fast accumulation of domestic public debt. Since 1988/89, the authorities have adopted a programme that seeks to minimise the domestic debt service of the government, to improve the mobilisation of domestic savings through the banking system and to develop the capital market.

33. The monetary authorities adopted a restrictive monetary stance in 1988/89. The increase in total domestic liquidity - as measured by the increase in money and quasi-money - was less than 12 per cent compared to an expected increase in nominal GDP of 14 per cent (Table 1). However, liquidity growth turned out to be less than 5 per cent due to both a larger than expected current account deficit and a lower than expected growth of domestic credit. Domestic credit growth was low due to increased government use of domestic non-bank borrowing and less credit utilisation by the private sector and public sector enterprises. The combination of a tighter-than-expected monetary stance and a less expansionary fiscal policy resulted in a dampening of inflationary expectations.

Table 1
Pakistan - Selected factors affecting changes in money and quasi-money[1]
(Percentage changes)

	Orig. Prog. Proj.	Actuals	Rev. Prog. Proj.	Actuals	Rev. Prog. Proj.	Prov. Actuals	Domestic credit deviation from prog.		
	1988/89		1989/90		1990/91		1988/89	1989/90	1990/91
Money and quasi-money	11.9	4.7	10.7	12.5	10.4	17.9	-60	17	72
Domestic assets (net)	10.4	5.4	9.6	11.5	8.4	13.4	-48	20	60
Claims on Government	7.0	5.9	7.0	4.6	3	23.7	-16	-34	690
of which:									
Budgetary support	6.3	5.9	3.7	2.6	2.8	--	-6	-30	--
Claims on non-government sectors	12.0	8.4	11.0	11.5	10.9	--	-30	4	--
of which:									
Claims on private sector	13.5	11.8	12.6	13.4	12.3	--	-13	6	--
Memorandum item:									
Consumer prices end of period	-	8.3	-	8.9	-		-	-	-

[1]Data are on a fiscal year basis ending June 30.

Source: IMF.

34. In 1989/90, the programmed increase in total monetary liabilities of 10.7 per cent was exceeded, reaching an actual figure of 12.5 per cent. Credit to the government for commodity operations accelerated.[4] While credit to the government for budgetary support was in line with expectations due to the government recourse to non-bank borrowing, credit to the private sector was higher than budgeted (nearly 13½ per cent against the 12½ per cent programmed).

35. The monetary authorities' revised credit programmed for 1990/91 sought to reduce credit expansion to the expected rise in inflation, well below the 13 per cent expected rise of nominal GDP. Overall liquidity growth was to be 10.4 per cent. However, overall liquidity expanded by 17.9 per cent. As the Gulf War caused a drop in foreign assets of the consolidated banking system, the overrun in the credit programme is to be attributed to excess use of bank credit for budgetary support by the government. This resulted not only from a higher than expected fiscal deficit, but also from the government need to refinance expiring domestic debt and to retire outstanding liabilities of public sector enterprises. Credit growth to the private sector remained low.

(v) Balance of Payments

36. The immediate sources are Pakistan's poor balance of payments performance in recent years are: (i) the impact of fiscal and monetary policies on the excess of domestic expenditure over domestic output; (ii) the vulnerability of export earnings to external and domestic developments, as exports are concentrated on relatively few products; and (iii) the continued decline in workers' remittances from abroad. In the last three years, this situation has resulted in low levels of gross official reserves, which have declined to cover about 1 month of merchandise imports (Chart 3).

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[4] In a context of a good harvest and depressed export prices, the stocking of large quantities of Basmati rice by the Rice Export Corporation of Pakistan was responsible for this outcome.

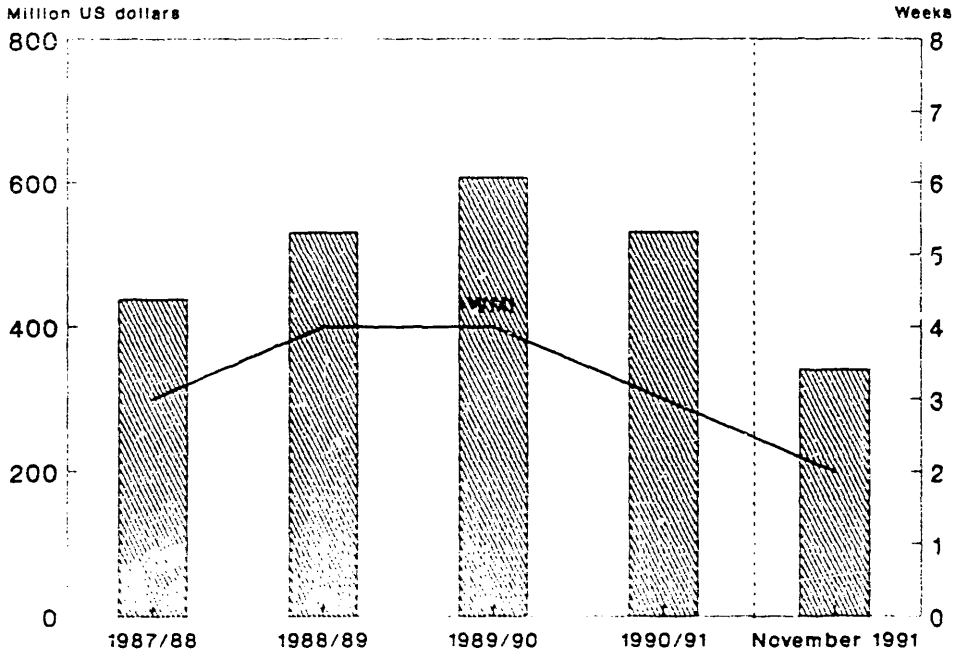
Table 2
Pakistan - Balance of payments
(Million US dollars)

	1987/88	1988/89	1989/90	1990/91 Provisional
Trade balance	-2 557	-2 573	-2 485	-2 476
- Merchandise exports, f.o.b.[1]	4 362	4 634	4 926	5 849
- Merchandise imports, f.o.b.	-6 919	-7 207	-7 411	-8 325
Services (net)	-1 381	-1 461	-1 616	-1 691
Private transfers (net)	2 256	2 100	2 210	2 054
of which:				
- Workers' remittances	(2 013)	(1 897)	(1 942)	(1 848)
Current account	-1 682	-1 934	-1 891	-2 113
Official transfers (net)	511	578	529	592
Medium- and long-term capital (net)	766	1 532	1 297	1 029
- Public- and publicly guaranteed (net)	600	1 356	1 093	796
- Private (net)	166	176	204	233
Short-term capital (net)	278	-101	254	696
- Official (net)	365	-59	409	472
- Private (net)	-87	-42	-155	224
Debt relief[2]	9	9	9	9
Capital account[3]	1 564	2 018	2 089	2 326
Errors and omissions	-30	-42	-45	-66
OVERALL BALANCE	-148	-42	153	147
Foreign exchange reserves	140	-11	-377	6
Other net foreign assets (Banking system)	8	-31	224	-153
Memorandum items:				
Gross official reserves[4]	438	459	622	572
Current account (in percent of GNP)	-4.3	-4.7	-4.5	-4.5
Growth rates[5]				
Exports, f.o.b.	+24.7	+6.2	+6.3	+18.7
Imports, f.o.b.	+19.5	+4.2	+2.8	+12.3

1 Exports (f.o.b) are on a shipment basis
2 1981 rescheduling
3 Excludes the net foreign assets of the banking system
4 Excludes gold
5 Annual percentage changes

Source: Ministry of Finance and Economic Affairs; and State Bank of Pakistan

Chart 3 - Pakistan - International reserves (excluding gold)

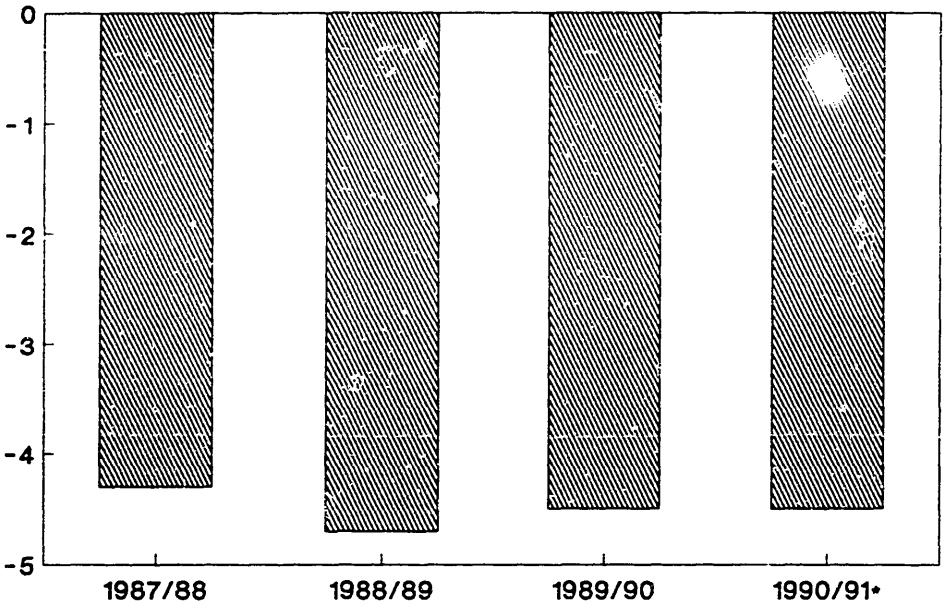


•WMI refers to equivalent weeks of merchandise imports (c.i.f) (right-hand scale). The figure for November 1991 is based on imports of the year 1990/91. Source: IFS, IMF, January 1992.

(a) The current account

37. In 1988/89 Pakistan's current account deficit widened to nearly US$2 billion (4.7 per cent of GNP), (Table 2 and Chart 4) largely because of sharp deterioration in the terms of trade.

Chart 4 - Pakistan
Current account balance
(Percentage of GNP)



*Provisional actuals.
Source: Ministry of Finance and Economic Affairs; State Bank of Pakistan.

38. The value of merchandise exports grew by more than 6 per cent in 1988/89. Rice exports declined, but exports of raw cotton (favoured by government policy) rose by 50 per cent (Table 3). The value of cotton-based manufactures (about 42 per cent of total export value) grew by 7½ per cent, reflecting principally an increase in export volume. The value of other traditional exports declined by nearly 17 per cent largely due to a fall in export prices for carpets, fish and synthetic textiles. Non-traditional exports grew only 1 per cent as their prices weakened.

Table 3
Pakistan - Composition of exports[1]
(Percentage shares)

	1987/88	1988/89	1989/90	1990/91
Cotton and rice	21.9	26.6	13.8	12.6
of which:				
Cotton	13.7	20.0	9.0	6.9
Rice	8.2	6.6	4.8	5.7
Cotton-based manufactures	41.7	42.2	50.5	52.4
of which:				
Cotton yarn	12.2	13.0	16.9	19.3
Cotton cloth	10.9	10.0	11.3	11.0
Ready-made garments	7.8	7.2	8.0	8.1
Other traditional exports	19.3	15.1	16.5	15.6
of which:				
Leather	6.4	5.2	5.6	4.5
Carpets and rugs	5.7	5.0	4.6	3.6
Fish and fish preparations	2.8	2.4	1.9	1.9
Synthetic textiles	4.4	2.5	4.3	5.6
Nontraditional exports	17.5	16.6	19.7	n.a.
of which:				
Leather garments	2.1	2.2	3.2	
Leather gloves	0.8	0.8	0.7	0.7
Sports goods	1.5	1.5	2.2	2.2
Total exports f.o.b.	100.0	100.0	100.0	100.0

1 Data used for the balance of payments estimates on a receipts basis differ from customs data due to differences in timing, coverage, and valuation. Data for exports (f.o.b.) are on a shipments basis.

Source: IMF and Ministry of Finance and Economic Affairs; State Bank of Pakistan

39. In 1988/89, the value of merchandise imports grew by about 4 per cent largely due to price developments. Public sector imports (more than 55 per cent of the total) grew more than 11 per cent (Table 4). Despite the trade liberalisation measures adopted during the year, private sector imports were almost stagnant. This was likely a result of the combination of rupee appreciation and tighter demand management policy (Chart 5). Imports of crude oil and petroleum products declined, as dollar prices dropped. Non-oil imports grew swiftly, due notably to large imports of wheat, required by bad weather conditions, as well as imports of edible oils.

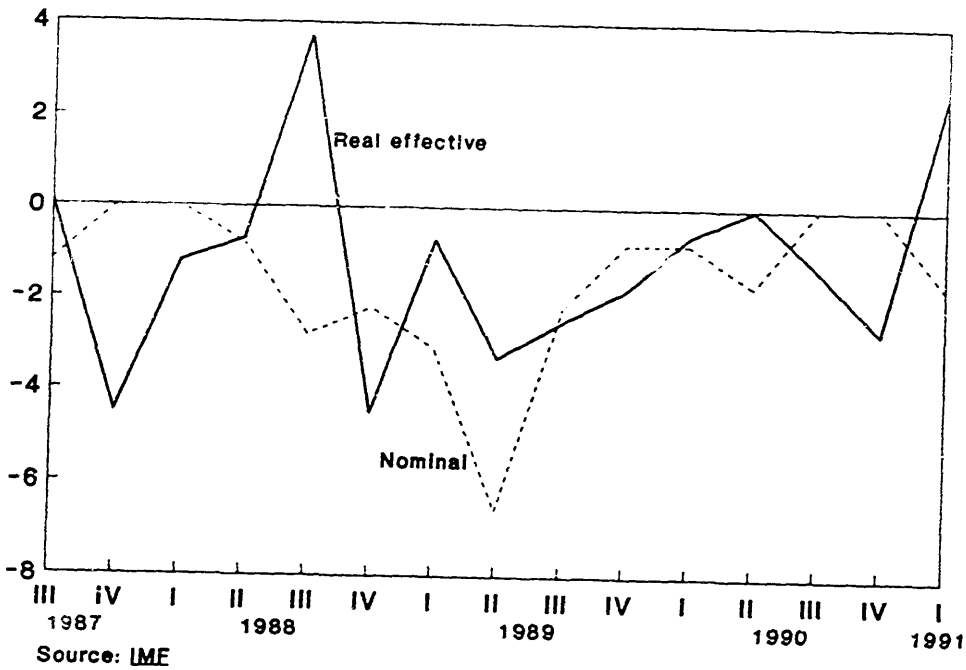
Table 4
Pakistan - Composition of imports[1]
(Percentage shares)

	1987/88	1988/89	1989/90 Provisional
Public sector			
Non-oil imports	39.3	43.4	42.5
of which:			
Imports financed by project assistance	12.5	10.8	11.3
Wheat and sugar	-.-	4.9[2]	3.1[3]
Fertilizers	2.3	2.4	2.2
Edible oils	2.9	5.6	4.8
Crude oil and petroleum products:	13.1	12.1	14.7
Private sector	43.1	41.4	39.1
Total imports c.i.f.	100.0	100.0	100.0

1 Data used for the balance of payments are on a payments basis and therefore differ from customs data due to difference in timing and coverage.
2 Only wheat.
3 Includes US$ 84 million sugar imports by TCP (Trade Corporation of Pakistan).

Source: IMF.

Chart 5 - Pakistan - Real and nominal exchange rate
(Period averages; quarterly)



Source: IMF

40. In 1989/90, the current account deficit was nearly US$1.9 billion, equivalent to 4.5 per cent of GNP. The trade deficit recorded a slight reduction in 1989/90, as merchandise exports grew by almost 6½ per cent and merchandise imports by less than 3 per cent.

41. Good export performance was explained by increases in exports of cotton-based manufactures (especially yarn, cloth and ready-made garments). Exports of rice dropped in volume and value while the value of other traditional and non-traditional exports grew by 21 per cent due to favourable international market conditions. The low growth in the value of merchandise imports resulted mainly from the growth of public sector imports of oil and petroleum products, and defence-related purchases.

42. The first eight months of the fiscal year 1990/91 were dominated by the effects of the Gulf War and by Governmental changes. The direct consequences of external events on Pakistan's current account in 1990/91 were a rise in the import bill and a further contraction of workers' remittances, which together increased the current account deficit to an estimated US$2.1 billion (4½ per cent of GNP), with a trade balance deficit expected to have increased to about US$2.5 billion.

43. In 1990/91, the value of merchandise exports is estimated to have grown by nearly 19 per cent (to US$5.8 billion). Merchandise imports are expected to have grown to US$8.3 billion, largely due to the jump in oil prices. Export growth was favoured by sharp increases in exports of cotton-based manufactures (yarn, ready-made garments and hosiery).

44. In 1988/89, the deficit on services increased reaching about US$1.5 billion, largely as a result of premiums paid on Foreign Exchange Bearer Certificates (FEBCs) which were cashed for foreign currencies to hedge exchange rate risk.[5] Private transfers, 90 per cent of which were workers' remittances, continued to decline, falling to US$2.1 billion.

45. In 1989/90, the services deficit increased for the third year in a row to US$1.6 billion, largely because of a rise in interest payments on the external debt. Workers' remittances recovered slightly. Directly affected by the Middle East crisis, workers' remittances are estimated to have declined in 1990/91 to US$1.8 billion, further widening the deficit in the services account.

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[5]These Certificates are liabilities of the government that must be purchased with foreign exchange. They are tax exempt and freely tradeable. They can be cashed at any time in rupees or foreign exchange. They bear a premium if redeemed in rupees.

(b) The capital account and international indebtness

46. In 1988/89, net capital inflows into Pakistan reached US$2 billion. The current account deficit was mostly financed by net medium- and long-term capital inflows, reflecting disbursements of wheat aid and disbursements of already-committed aid. Net inflows of medium- and long-term capital doubled to about US$1.5 billion, with the Asian Development Bank and the World Bank the major lenders. Official transfers rose to almost US$580 million, of which refugee assistance (almost a quarter) declined, despite an increase in the number of refugees. There was a moderate increase in net foreign investment. Short-term capital inflows were much smaller than in 1987/88, in line with the Government's policy of reducing reliance on short-term external borrowing.

47. In 1989/90 the capital account surplus rose slightly due to increased short-term capital inflows and official transfers which offset the poor performance of medium- and long-term capital flows. The latter drop reflected shortfalls in foreign commodity aid. In 1990/91, the capital account surplus is estimated to have increased to US$2.3 billion thanks to an inflow of gross official transfers in the form of aid and grants to help reduce the costs of the Middle East crisis and to a further increase in net short-term capital inflows.

48. The total external civilian debt of Pakistan (mostly project, food and other commodity debt) amounted to US$12.8 billion at the end of June 1989, or 43 per cent of GNP. The stock of short-term external debt was US$2.5 billion. In 1988/89, total civilian external debt service payments (including IMF credit) amounted to more than 35 per cent of the value of exports of goods and services.

49. In 1989/90, total civilian external debt grew to US$14 billion, equivalent to 47 per cent of GNP, but civilian external debt service payments as a percentage of exports of goods and services declined to 32.7 per cent, because of improved performance of the export sector.