

THE STATE OF PAKISTAN'S ECONOMY First Quarterly Report for 2000/2001¹

Overview

The *Annual Report* released last month presents a comprehensive and analytical review of the economy. This Quarterly Report focuses on developments that have taken place during the first quarter of FY01, and hints at what is likely in the remaining part of the year.

The economic indicators for July-September 2000 show positive movements in large-scale manufacturing, exports, home remittances, tax revenues, and private sector credit compared to the corresponding periods in the two previous years. However, the rate of inflation has increased, while actual tax collection (as a percentage of target) is below last year's achievement. Domestic liquidity did not record much change, but is likely to come under pressure.

Exports grew by 14.6 percent this quarter, but the actual level of US\$ 2.2 billion was slightly below the target of US\$ 2.5 billion. Home remittances, which had shown a decline in July-September 1999, increased by 18.8 percent (excluding war compensation and Hajj receipts). Tax revenues were also up by 10 percent,

Quarterly Economic Indicators

(Percent)

Growth rates	July-September		
	FY99	FY00	FY01
Large-scale Manufacturing	10.9	3.6	10.9
Exports	-8.7	5.2	14.6
Imports	-20.4	15.5	12.5
Home Remittances	-37.6	-28.3	70.0
Tax Revenues	-4.4	23.0	10.0
CPI	6.7	3.3	4.8
Private Sector Credit	-4.6	-3.5	-0.8
M2	0.2	-1.2	-0.2
<i>As % of GDP*</i>	FY99	FY00	FY01^P
Trade deficit	3.6	2.3	1.8
Current a/c deficit (Including Official Transfers)	3.8	1.6	1.6
Fiscal Deficit	6.1	6.3	5.2

* Numbers relate to full year; p projections for full year

P Provisional

¹ Date of Commencement: 27th November, 2000; Date of Completion: 7th December, 2000

but have missed the quarterly target. Demand for private sector credit has also picked up in relation to the last two years.

The most noteworthy developments during the quarter were in the areas of exchange rate and monetary policy. The State Bank of Pakistan adopted a free-floating exchange rate on 21st July and defended the currency at Rs 55 per Dollar on 22nd August. Under this policy, SBP allowed market forces to determine the exchange rate without direct intervention or moral suasion. On 19th September, SBP again let the Rupee go, but this resulted in a sudden depreciation of 4.8 percent (interbank sell rate) in just one day. The speculative attack threatened a free-fall of the Rupee had SBP not tightened its monetary policy to stabilize the exchange rate. Although monetary policy tools and banks' decision to impose cash margins on imports eased pressures in the foreign exchange market, the resulting liquidity squeeze increased T-bill rates and is beginning to place upward pressure on lending rates.

In the real sector, the shortage of water in the early part of FY01 is likely to impact *kharif* crops (e.g. cotton, sugarcane, and rice), which suggests that the 3.2 percent annual growth target for major crops may not be met (see **Table 1**). On a positive note, this quarter has seen an auspicious start for the large-scale (LS) manufacturing sector. LS manufacturing grew by 10.9 percent in Q1-FY00 compared to 3.6 percent in the corresponding period last year. The main drivers behind this increase in growth are textiles, refining of POL products, metal industries and automobiles (see **Table 2**). Data on services is not available at this stage of the fiscal year, while updated information on the agriculture sector continues to revise growth projections in the sector.

While Pakistan's economic policies during FY00 were largely formulated outside the parameters of any structural adjustment program promoted by the IFIs, policy initiatives in the last quarter of FY00 and Q1-FY01 were largely consistent with the thrust of the ESAF/EFF program suspended in September 1999. More specifically, the government continued the documentation drive to increase tax revenues, clean up assets of the banking system and hold willful defaulters accountable, eliminate avenues of hiding wealth, improve governance, and bring social development and poverty alleviation to the forefront of policy making.

The comprehensive documentation drive, primarily designed to create the groundwork for a larger, more equitable tax base was extended to another 13 cities during this quarter. The Tax Amnesty Scheme was extended until 30th November, while the Self-Assessment Income Tax Scheme has also undergone several changes. As a result, the number of filers has fallen short of target, but still exceeds the numbers realized in November 1999. Given the protracted negotiations between the Government and traders, along with modifications to the original scheme, results are likely to be realized with a time lag.

Given the reserve money overhang that needs to be averaged out in FY01², and the size of past deficits, the fiscal deficit target of Rs 162.1 billion for FY01 implies that the ambitious revenue targets this year will have to be met. This is reinforced by the fact that inflows from non-bank sources are expected to be lower than last year³, while external financing is likely to be controlled to a large extent.⁴ Given the liquidity problem currently facing commercial banks and the binding targets on SBP financing, bank borrowing will not be able to provide much leeway in terms of financing the government's fiscal deficit. In effect, against a target of Rs 435.7 billion in FY01, with realized revenues of Rs 351.6 last year, efforts to meet this target will have to be redoubled.

Looking specifically at Q1-FY01, keeping the ambitious revenue target in mind, tax collection as a percentage of target is lower than the comparable period last

² Reserve money growth increased sharply in FY00 on account of Rs 135.0 billion net financing by SBP. Further increases this year will have to be contained to ensure that central bank financing is averaged out in the course of the next few years.

³ Individual investment in NSS has fallen since the first rate cuts in May 1999, while a significant chunk of institutional investment that had been directed to NSS is currently being placed in commercial banks. It is hoped that such long-term savings will be channeled to the government (in the form of non-bank borrowing) through the Pakistan Investment Bond that is to be launched on 12th December 2000.

⁴ While Pakistan was able to realize exceptional external financing in both FY99 and FY00 on the basis of conversions of frozen FCAs into Special US Dollar Bonds, the pace of this conversion has fallen substantially. In effect, external financing during FY01 will largely comprise of assistance from the World Bank, ADB, and sovereign assistance from G-7 countries.

year; nevertheless, *realized* collection was 10.0 percent higher (see **Table 3**). The increase in revenues is driven by a higher than budgeted increase in sales tax receipts, on account of enhanced coverage and the decision to replace excise duties with the retail GST.

Despite the constraints on deficit financing, the first quarter of FY01 witnessed higher net budgetary borrowing by the government relative to the corresponding period last year. As stated earlier, the factors that forced higher GOP borrowing from the banking system last year, continued to play a role this year. On the other hand, lower repayments on private sector credit during the quarter resulted in an increase in net credit disbursed by commercial banks. This has also contributed to the liquidity shortage facing the banking system. In terms of the composition of money supply, Q1-FY01 witnessed a fall in the outstanding volume of currency in circulation and demand deposits, which arrested the disturbing trend witnessed in the latter half of FY00 (see **Table 7**). It remains to be seen whether commercial banks are able to build upon this salutary development by increasing their Rupee deposit base.

Although money supply growth was still contained in Q1-FY01, inflation started to pick up following price increases for medicines and higher gas charges. Looking ahead, the impact of the Rupee depreciation, higher international oil prices that will translate to domestic retail prices, and increased T-bill rates, may begin to take hold in the remaining part of the year.

While Pakistan was able to meet all non-rescheduled repayments during FY00 without IFI assistance, it was unable to build up liquid reserves (see **Table 9**). Since this did not leave the country in a position to meet normal payments in 2001, with the IMF on-board, Pakistan will have to request another round of rescheduling with both official and commercial creditors. This will have to be accompanied by a build-up in liquid reserves through a combination of inflows from the IFIs and outright purchases from the open market.

Higher international oil prices, larger imports of textile machinery and weak export prices, increased the trade deficit in Q1-FY01 to US\$ 505.7 million this

quarter.⁵ However, most export items recorded quantitative increases (see **Table 11**). Given the fact that the country has shown an increased exportable surplus, efforts to explore other markets needs to be intensified.

Putting aside the adverse movements in international prices, the external imbalance can only be addressed by reducing the current account deficit. Other than increasing export revenues by making textile exports less sensitive to international cotton prices (which implies moving into higher value added items) and promoting non-traditional exports, this should also include reviving worker remittances from expatriate Pakistanis. Although *cash* remittances in Q1-FY01 have increased to US\$ 351 million compared to US\$ 201 million last year, this should not be viewed with satisfaction. Exceptional inflows from Kuwait on account of payments to workers impacted by the Gulf war in 1991 (US\$ 56.1 million) and receipts to finance external sponsorship for Hajj travel (US\$ 77.4 million),⁶ are largely responsible for the increase. Excluding these two components, the actual increase is 18.8 percent over the corresponding period last year. The fact of the matter remains, that most of the remittances from the Gulf region, which is currently experiencing an oil-price induced boom, are not being realized by the banking system.

Pakistan's capital account saw a sharp fall in outflows from US\$ 1,096 million in Q1-FY00 to US\$ 296 million this year (see **Table 13**). This was largely because of a smaller volume of notional repayments since some of the commercial loans rolled over in Q1-FY00 (especially FE 45 swap funds) will not show up in the capital account this quarter. Furthermore, with lower conversions of non-resident FCAs to Rupees or US Dollar Bonds, short-term capital outflows have fallen sharply.

Despite a smaller volume of outflows from Pakistan's capital account, liquid reserves had to bear the brunt of financing the current account deficit. Against a draw down of liquid reserves of US\$ 179.0 million in Q1-FY00, the first quarter

⁵ Customs records from FBS. The trade deficit based on exchange records (SBP) was US\$ 476 million for Q1-FY01.

⁶ During August and September 2000, Hajj receipts amounted to US\$ 77.4 million, compared to only US\$ 9.5 million during Q1-FY00.

of this year witnessed a fall of US\$ 324.1 million. Hence, the fall in the capital account imbalance has forced a corresponding fall in the size of the exceptional financing gap.⁷

As stated earlier, the most startling development in Q1-FY01 was the sharp depreciation of the Rupee in end-September 2000 (see **Table 7**). The inability to build up liquid reserves while only making rescheduled debt repayments signaled the need to revisit the competitiveness of the Rupee. SBP first hinted at this on 21st July, when the Rupee breached Rs 52.30 per US Dollar (sell). By 22nd August, the exchange rate approached Rs 55, which was defended by SBP. However, with growing awareness that the central bank did not have sufficient reserves to defend the exchange rate (coupled with pressure from depreciating regional currencies) the interbank rate breached Rs 55 on 18th September. This second movement in the exchange rate was far more rapid than could have been anticipated; by the close of 19th September, the Rupee had already breached Rs 58.

Realizing the limits on the use of scarce reserves to defend the Rupee, and to stem the speculative attack, SBP had little option but to tighten monetary policy in an attempt to quell market uncertainty. This sharp use of monetary policy was able to tighten market liquidity, which in turn reduced importer's demand for hard currency.⁸

This succeeded in halting the slide of the Rupee, and given the market perception that SBP would not be willing to impose cash margins on imports, commercial

⁷ Payments that have been rescheduled.

⁸ More specifically, the discount rate was increased from 11 to 12 percent on 19th September, and further to 13 percent on 5th October. Subsequently, the weighted average 6-month T-bill rate increased from 7.4 to 8.1 percent (on 21st September), to 10.5 percent (on 5th October), and finally to 11.0 percent on 19th October. However, the most painful turn in SBP's monetary policy took place on 7th October, when cash reserve requirements (CRR) were increased from 5 to 7 percent. This decision was taken when the Rupee (sell) rate actually breached Rs 60 on 6th October. By this time, there was a real fear in SBP that the bidding war in the foreign exchange market could push up the Rupee exchange rate to unreasonable levels, which in turn could threaten Pakistan's macroeconomic stability.

banks acted on the need to contain speculation by imposing cash margins (excluding POL products). This was able to calm the market, after which the Rupee rate (sell) fell below Rs 58 on 19th October. Although this tightening of monetary policy was able to stem the panic in the foreign exchange market, it dried up Rupee liquidity in the market, which is still plaguing the banking system.

Looking ahead into FY01

With the recently concluded agreement with the IMF, the inflows already realized and the expected debt rescheduling in January 2001, one of the major risks to the economy – the inability to service Pakistan’s external debt, has been mitigated⁹. However, the IMF program contains its own set of risks and potential vulnerabilities; non-compliance with specified performance criteria being the foremost. To manage this risk, Pakistan’s economic managers will have to ensure that the fiscal deficit is contained within target, government borrowing from the banking system is kept within limits, slippages in revenue collection should be avoided, export expansion remains on course and fresh external borrowings (on non-concessional terms) are not out of line.

These policy measures have to be accompanied by favorable exogenous factors like good weather (to help crop production), a lowering of international oil prices, sustained export demand, and higher inflow of worker remittances. A vigilant monitoring system will enable mid-course corrections, and thus reduce the probability of non-compliance. Establishing a track record of meeting these performance criteria is essential to enhance Pakistan’s credibility both domestically and internationally. The importance attached to this point is enhanced by the Letter of Intent that was recently published by leading newspapers.

⁹ In terms of the additional debt rescheduling that is to be negotiated in January 2001, it is important to realize that the extension of the consolidation period must coincide with the duration of the IMF program. Given the shorter duration of the SBA, this implies that the immediate relief from the Paris Club will be lower than what has already been realized. However, if Pakistan is able to meet the performance criteria contained in the IMF’s SBA and is successful in securing a PRGF by the end of FY01, the relief from sovereign creditors will also increase.

Concurrently, the costs of this agreement to be borne by domestic agents, should be explicitly recognized. Utility and gas prices will go up; higher prices of petroleum products will be passed through to retail customers; the exchange rate will be determined by market forces alone; the public sector's capacity to generate new jobs will be impaired on account of the fiscal austerity; privatization of state owned enterprises will result in voluntary severance packages for redundant and surplus labor; the export finance subsidy will be phased out; tax compliance will be strictly enforced, and actions will be taken against tax evaders. Additionally, incidental expenditures by federal/provincial governments and autonomous bodies will have to be cut drastically.

However, these costs will ultimately benefit the economy at large, and bring about the desired changes. But for those public sector employees who are likely to be rendered surplus, businessmen who have to pay taxes in full, consumers who have to pay higher utility bills and for fresh graduates who remain unemployed, these real and onerous costs are likely to become apparent with immediate effect.

In a globally integrated economy, autonomous decision making by the government is becoming limited, particularly for those with less than robust economies. In Pakistan's case, this limited set has been further circumscribed by policy lapses and mistakes during the last ten years. In effect, the country is currently paying the price for avoiding politically sensitive decisions and opting for softer options.

However, on balance, the agreement with the IMF is an appropriate way to manage the external debt problem, and will provide the right environment to push through with important structural reforms. In the medium term, however, it is incumbent upon Pakistan's economic managers to design a practical, workable strategy whereby the country will no longer have to rely on the IMF.

Real Sector

Agriculture

Preliminary estimates reveal a higher than targeted increase in area under cultivation for cotton, maize, mung and chilies; and declines under rice, sugarcane and mash (see **Table 1**). Irrespective of this, water shortages in this year's *kharif* season have adversely effected per hectare yields, which may lower production (see cotton and rice). Early estimates of the cotton crop indicate that actual production will be in the range of 10.2 – 10.4 million bales compared to an actual outcome of 11.2 million bales last year. This should suffice to meet domestic consumption and leave some surplus for the export of lint cotton.

The lower agricultural growth estimates are based on several factors. First the shortage of irrigation water due to a significant drop in the water levels of Tarbela and Mangla dam has created uncertainty about the *Rabi* crops (particularly wheat). Second, the 13.6 percent growth posted by major crops last year has enlarged the base, which makes further growth more difficult. Third, deficits in the three major *kharif* crops will make it difficult to achieve the stipulated target. On the basis of these preliminary estimates, the agriculture sector is expected to grow by 1.6 percent during FY01, against a target of 3.9 percent in the Annual Plan. However, it is still too early to credibly quantify the impact of agricultural growth on real GDP during FY01.

During July-September 2000, the price of lint cotton hovered between Rs 1,900 and Rs 2,000 per maund (37.32 kgs). This is with the exception of the first two weeks of August when the price moved from Rs 1,900 on 1st August to Rs 2,225 on 16th August. This momentary rise in price was primarily due to three reasons: (1) a restricted supply of seed-cotton *kapas/phutti* due to cloudy weather in Sindh, (2) a shortage of lint as ginners were busy preparing for the new cotton crop, and (3) lifting of anti-dumping duties on yarn by Japan. On account of better supply of seed-cotton and the start of ginning in Punjab and Sindh, the price of lint-cotton started to decline from 17th August and remained under pressure till 14th September 2000, touching a season low of Rs 1,800 per maund on 13th September 2000. By end-September, the price had reached Rs 1,900. A subdued outlook on the size of the cotton crop for FY01, coupled with expectations of rising international prices, has started placing upward pressure on lint cotton prices at the end of Q1-FY01. If December is a seasonal low for

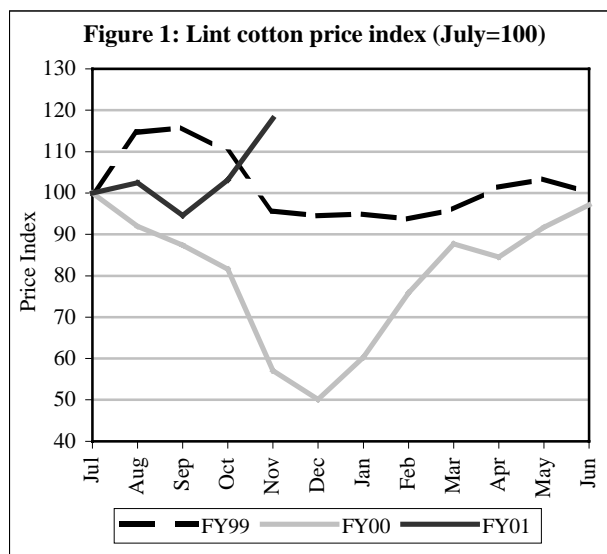
prices (see **Figure 1**), lint cotton prices in FY01 are likely to remain higher than the previous two years.

Large-scale Manufacturing

Large-scale manufacturing witnessed a higher growth rate of 10.9 percent during Q1-FY01, compared to 3.6 percent during the same period last year.

Because sugarcane crushing starts in late

October or early November, there is no production of sugar during the first quarter of the fiscal year. If the weight of sugar is excluded from the 96 items, the growth rate turns out to be 12.4 percent against 4.1 percent in the corresponding period last year. All industries, with the exception of non-metallic mineral and rubber products, show positive growth, while pharmaceuticals and engineering posted lower growth vis-à-vis last year (see **Table 2**).



Looking at specific items in LS manufacturing, the following points capture the gist:

- Last year’s bumper cotton crop continued to push the textiles

Growth Rates in LS manufacturing

	Q1-FY00	Q1-FY01
Overall Growth	3.6	10.9
Excluding Sugar	4.1	12.4
Trimmed Growth ¹⁰	3.5	7.6

¹⁰ This refers to LS manufacturing growth excluding 5 outliers each for best and worst performing sub-sectors. Given the lumpy categorization, trimmed growth in Q1-FY00 excludes the following: tractors, cotton yarn & cloth, pharmaceuticals (liquid/syrups) and nitrogenous fertilizers (top performers); and jute goods, LCVs, blended tea, trucks and petroleum products (poor performers). In terms of Q1-FY01, the top outliers are petroleum products, A/Cs, cotton cloth & yarn and phosphatic fertilizers; while bottom outliers are blended tea, electric meters, vegetable ghee, tractors and cement.

sector during Q1-FY01. The government's efforts toward value addition translated into a higher growth rate in the weaving sector. Easing the restriction on the import of old machinery and allowing duty free import of spinning ring frames, has also had a positive contribution.

- Automobiles showed higher growth on account of better production of LCVs, cars, jeeps and motorcycles, which was partly offset by negative growth in tractor production. Increase in the production of cars and jeeps can be attributed to an increase in demand for small cars (800 and 1000 cc) along with the establishment of new plants by Hyundai and Daihatsu. However, tractor production fell due to low bookings on account of lower financing by ADBP for the current year.
- A demand supply imbalance continued to depress cement production in Q1-FY01. However, the tendency to misreport production data (for tax purposes) should qualify the posted performance of this sector. Nevertheless, the cartel created by the larger producers in Pakistan has recently collapsed.
- The production of edible oil increased due to enhanced availability of canola seed and increased palm oil imports in anticipation of higher import duties. On the other hand, mass marketing of the health benefits of edible oil resulted in increased demand and a corresponding fall in demand for ghee. Hence, certain ghee mills in Sindh have closed down during Q1-FY01.
- Growth in the production of chemicals during the first quarter of FY01 remained at the same level as the corresponding period last year. However, production of soda ash declined by 14.9 percent against 5.4 percent growth in the corresponding period last year, due to the closure of Sindh Alkalies Limited in May 2000 on account of a temporary disconnection of the supply of gas. Overstocking has also resulted in a cut in production in Q1-FY01.
- Metal industries, especially the production of pig iron, coke and billets increased on account of better availability of coal, which is the most important fuel used for heating. However, production of H.R. coils/sheets and C.R. coils declined in Pakistan Steel Mills, as one of the two heating furnaces was closed down for overhauling and repairing during July 2000.
- The higher growth rate of fertilizer production followed the establishment of a new plant by Fauji Jordan Fertilizer that commenced production in January 2000. This has contributed specifically to the production of phosphatic fertilizer.

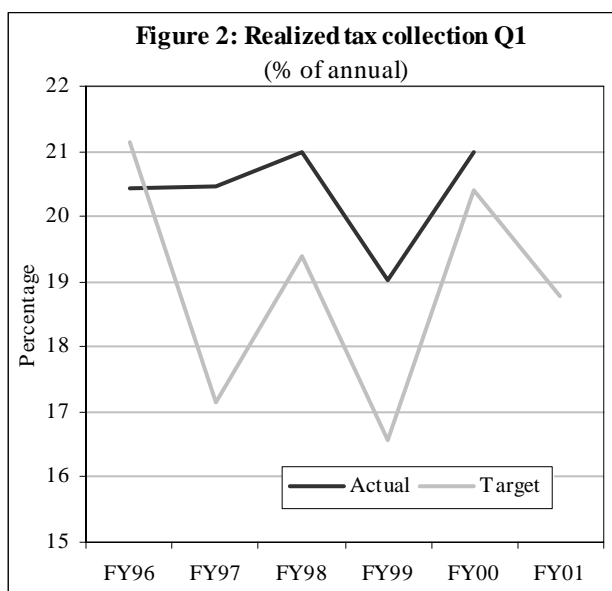
- Production of rubber products, especially motor tyres, declined because General Tyre and Rubber Company of Pakistan Ltd. remained closed in August for annual machinery and plant maintenance. Additionally, low demand due to the availability of smuggled tyres, has also hit domestic production.

Fiscal Developments¹¹

Tax collection during July-September 2000 (Q1-FY01) witnessed a 10.0 percent increase over actual collection in the comparable period last year. Due to the ambitious full-year budget target, tax collection as a percentage of the target is lower than last year (**Figure 2**). However, it should be noted that this year's target includes collection from the on-going Tax Survey, which is expected to be realized in the second half of FY01.

Direct Taxes

The breakup of tax collection in Q1-FY01 reveals that collection from direct and indirect taxes grew by 1.5 and 13.5 percent over last year (**Table 3**); the Federal Budget for FY01 envisaged an increase of 25.3 and 23.3 percent in direct and indirect taxes, respectively. This weak performance can be attributed to three reasons: (a) a tax relief extended to salaried individuals from 1st July 2000 (**Appendix III**), (b) an exemption on the five-percent withholding tax applicable on the sale of Daewoo cars, which were imported under the



¹¹ First quarter data is unavailable for: (1) breakdown of direct taxes, (2) volume of non-tax revenues, and (3) government expenditures.

previous government's Yellow-Cab initiative, but remain unsold to potential buyers, and (c) the extension in the deadlines for submitting of income and wealth tax returns, has also shifted the revenue impact from Q1-FY01 to Q2-FY01.¹²

Indirect taxes

Sales Tax

The compositional breakdown of indirect taxes shows that sales tax has become the mainstay of indirect, as well as total taxes. The increase in sales tax collection during Q1-FY01 is impressive, and is higher than envisaged in the Federal Budget for FY01 (**Table 3**). The primary reason for this impressive performance has been the imposition of GST on cement and services, and not just the energy sector as is believed in certain quarters. Details of the discretionary measures taken vis-à-vis the incidence of GST are provided in **Appendix III**.

Central Excise Duty

Collection under Central Excise Duty (CED) amounted to Rs 12.7 billion this quarter, showing a 1.1 percent decrease over the same period last year. This negative growth is the result of the government's efforts to replace the CED with GST, and is in line with the 7.7 percent decrease that has been targeted in the federal budget for FY01. The substitution is part of the government's efforts to ultimately reduce the number of tax heads and shift the tax burden to consumption via the GST. Another factor that contributed to lower collections this quarter is the exemption of CED on the import and sale of furnace oil.

In order to get a better picture of how CED and sales tax have been performing, it would be instructive to look at total collection under these two heads.

Combined collection contributed Rs 34.3 billion to the government treasury in Q1-FY00, while in the comparable period this year, collection stands at Rs 44.2 billion. This shows that the increase in collection is not only attributable to the substitution of taxes, but also enhanced coverage under GST.

¹² The initial deadline was 30th September 2000. This was later extended to 15th October, the to 1st November 2000, and currently stands at 30th November.

Custom Receipts

Custom receipts not only fell short of their target, but also registered a 17.8 percent decline over actual collection in the comparable period last year. The decline in dutiable imports, and the reduction in custom duty on sugar have largely contributed to lower collections this quarter. Moreover, collections under this head are expected to fall further compared to last year, due to the stated objective of reducing the share of trade taxes in overall collection. More specifically, under an agreement with WTO, the average tariff rate is to fall to 30 percent (from a current average rate of 35 percent) by June 2001.

In conclusion, whether the government will meet its budget targets or not is largely dependent on the results of the TAS, tax survey, and the successful implementation of GST. Although it is too early to make a judgment on the existing fiscal initiatives, the government must keep a vigilant eye on tax collection through improved administration, stricter implementation of reforms and capitalizing on the benefits from the documentation drive. Although Pakistan's tax performance this quarter has been better compared to the previous year, the stretch target for FY01 has to be achieved at all costs to establish a credible fiscal track record. The results of the TAS and Tax Survey will prove to be the swing factor. Needless to say, inadequate fiscal revenues remain the most chronic problem in Pakistan's economy.

Money and Credit

Given significant and interrelated developments in both monetary policy and the exchange rate at the end of September 2000, this and the section on the exchange rate in the overview are based on data till mid-October 2000. However, to be consistent with past Quarterly Reports, the data shown in the tables will limit presentation to end-September 2000.

While FY00 witnessed significant government borrowing from SBP, the resulting overhang of reserve money growth implies that this will have to be averaged out in FY01. More simply, this implies that government borrowing from SBP will have to be reduced significantly to compensate for the excess in FY00, while a shift in the composition of bank borrowing towards commercial banks is also required. This suggests that interest rates will be more reflective of the existing level bank liquidity and the government's credit needs.

As stated in SBP's *Annual Report* for FY00, the past year witnessed tight liquidity conditions in the banking system. Coupled with low net disbursements to the private sector last year, the volume of repayments realized this year has not improved bank liquidity.

Monetary developments in Q1-FY01

The first quarter of each year shows a seasonal net contraction of private sector credit, as fresh lending is low while repayments from the previous year continue. It is the second quarter of the fiscal year, cotton-financing increases and private sector credit posts its greatest increase. Nevertheless, as shown in **Table 4**, private credit did not contract as much in Q1-FY01 (as it did the year before) since repayments on term lending were lower this year. In general terms, both government and non-government borrowing (net) were higher in Q1-FY01 relative to the corresponding period in the previous year.

Despite lower placement in the special account with SBP, gross borrowing by GOP of Rs 49.7 billion was significantly higher in Q1-FY01 compared to the period before. The resulting increase in net budgetary support is primarily on account of lower non-bank borrowing following the institutional ban from investing their long-term savings in National Savings Schemes (NSS).¹³ Furthermore, the slowing conversion of frozen FCAs into Special US Dollar Bonds in Q1-FY01 (relative to FY00) reduced the volume of *external finance* available to GOP to finance its expenditures.¹⁴ These two factors could explain why government borrowing from the banking system is higher this year despite the fact that GOP is targeting to reduce its budget deficit from Rs 206.8 billion in FY00 (provisional actual) to Rs 162.1 billion this year. However, for the three-month period ending September 2000, the bulk of this borrowing is from

¹³ Looking at only the three most popular instruments (Defence, Regular Income Certificate and Special Saving Certificates), net mobilization during Q1-FY00 was Rs 27.6 billion, while the corresponding period during Q1-FY01 showed net inflows of Rs 6.1 billion.

¹⁴ The conversion from frozen FCAs into US Dollar Bonds was of US\$ 266 million during Q1-FY00, which fell to only US\$ 52 million in the corresponding quarter this year.

commercial banks. The composition of government borrowing has changed in October, which will need to be addressed in Q2-FY01 (see **Figure 3**).¹⁵

A bumper wheat crop caused a record net disbursement of Rs 40.1 billion for commodity operations. The magnitude of this lending and the transfer of liquidity to the rural sector where farmers are less inclined to place the funds with banks have exacerbated the liquidity problems facing NCBs (the main financiers of commodity operations).

Looking at non-government borrowing, **Table 4** shows that private sector borrowing from commercial banks is less negative than the year before. As hinted at earlier, this is to be expected given the lower disbursement of credit to the private sector during FY00, which implies a lower stream of repayments this year. Credit retirement by autonomous bodies at Rs 9.8 billion is almost at the same level as in Q1-FY00 and specialized banks exhibited a similar story. Financing for the Export Finance Scheme (EFS) by commercial banks actually shows positive disbursements of Rs 1.7 billion (in Q1-FY01) for the first time since the eligibility criteria were made stricter in December 1999. This suggests that the cycle of export financing will return to normal levels during this year.

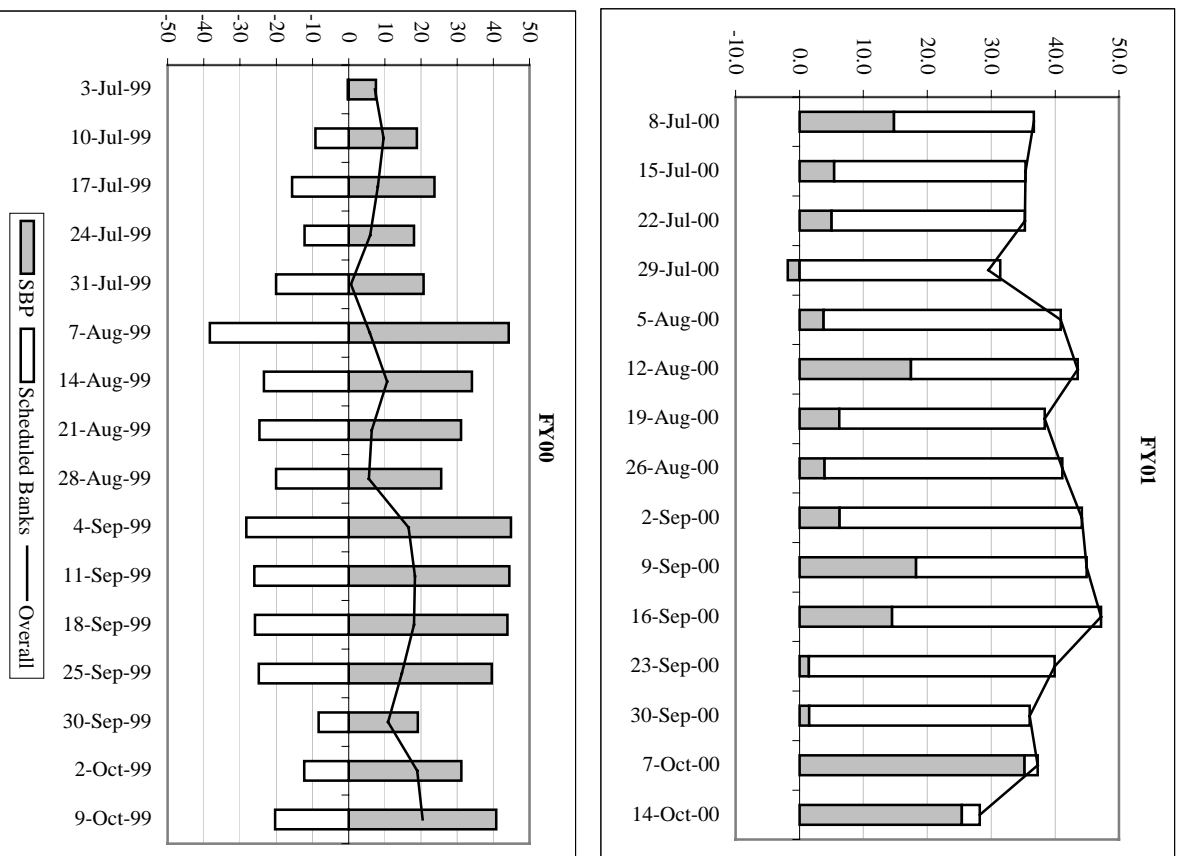
Net retirement of commercial bank credit by the private sector (excluding EFS) fell from Rs 16.1 billion in Q1-FY00 to only Rs 6.2 billion this year. Within the backdrop of the seasonal retirement of credit during the first quarter, the *smaller* volume of retirement this year is on account of lower term lending during FY00, which has reduced the volume of repayments realized during Q1-FY01. This has added to the liquidity problem facing commercial banks.¹⁶

The sharp increase in net credit disbursed by *other financial institutions*, from Rs 611 million in Q1-FY00 to Rs 8.1 billion this quarter is primarily because of foreign exchange swap transactions conducted with certain NBFIs. Since these

¹⁵ The problem with this shifting of government borrowing from SBP to commercial banks is that it is contingent on the availability of adequate liquidity with commercial banks. This issue will be discussed in more detail later.

¹⁶ A more detailed discussion of the sectoral distribution of private sector credit (by commercial banks) to the manufacturing sector will follow.

Figure 3: Net GOP borrowing from the banking system for budgetary support



institutions are supplied with Rupee liquidity by SBP against the foreign exchange brought in (which are lumpy and not very frequent), the abrupt shift from large net disbursements to contractions is normal.¹⁷

In overall terms, the increase in domestic credit expansion contrasts with the contraction of Rs 13.3 billion in the corresponding period last year, which suggests that banks have not had access to the sort of liquidity they were accustomed to. Furthermore, with a larger draw down of Pakistan's liquid reserves (US\$ 324.1 million in Q1-FY01), the net contraction in money supply (M2) is smaller than the corresponding period in FY00.

Sectoral distribution of credit

Although commercial bank lending to the private sector shows a significant reduction in credit contraction, the manufacturing sector posted a very similar volume of retirement in the two quarters. This implies that financing for exports, agriculture and retail/wholesale trade have contributed largely to the smaller volume of net retirement. Unlike the sharp fall in net fixed lending in FY00 relative to FY99 (for reasons discussed in the *Annual Report FY00*), a comparison of Q1-FY01 with the previous quarter does not show a very significant divergence. This is because fixed investment loans are of longer tenor (≥ 1 year), while the reasons for the sharp curtailment during FY00 took hold after the change in government in October 1999 (see **Table 5**).

Money market

Discounting

Looking at the full quarter, banks discounted about Rs 138.7 billion in Q1-FY01 against Rs 69.5 billion in the corresponding period last year. As shown in **Table 6a**, although the number of days that banks approached the discount window at SBP fell from 26 to 20, the average volume of discounting increased very sharply. Since approaching the discount window is expensive for banks (liquidity is provided at a penal rate), banks try to minimize the number of times

¹⁷ However, in terms of the Monetary Survey, since this inflow of foreign exchange increases net foreign assets, which in turn raises domestic liquidity, SBP's impact on *other items net* (OIN) must reflect the counter-entry to neutralize the expansion in *net domestic assets of the banking system* brought about by *other financial institutions* (see **Table 4**). This explains the abrupt negative impact of Rs 6.3 billion shown in OIN.

they approach SBP's discount window. The reason for the higher volume of average discounting is because of a mismatch between dates of repayments on maturing government securities and the settlement of bi-weekly primary auctions. Nevertheless, banks needed a larger volume of very short-term liquidity during Q1-FY01 than the corresponding period in FY00.¹⁸ The overnight liquidity position in the money market is shown in **Figure 4**, which depicts increasing tightness nearing the end of the quarter.

Open market operations

In terms of short-term liquidity management, SBP did not inject any liquidity during Q1-FY01. On the other hand, absorption of liquidity fell from Rs 49.7 billion in Q1-FY00 to Rs 38.7 billion in the corresponding period this year. As shown in **Table 6a & b**, in view of a tighter month of September (with discounting at Rs 64.9 billion), SBP absorbed less from the market through OMOs.

An interesting development during Q1-FY01 is SBP's efforts to signal to the market the difference between OMOs and primary auctions. Conceptually, auctions are an avenue for the government to borrow from scheduled banks at different maturities, while OMOs are a way to influence market liquidity on a short-term basis. Hence, during the course of Q1-FY01, SBP concentrated its OMO activity only on tenors that ranged from 2 to 8-week. This way, SBP was able to influence market liquidity for a maximum period of 2 months.

Primary auctions

As shown in **Figure 5**, 6-month T-bill rates posted a steady increase in the first five primary auctions in Q1-FY01. This was done to rectify the divergent trend in international and domestic interest rates (see **Figure 6**). However, in the last auction on 21st September, T-bill rates increased sharply (by accepting all bids) in an effort to signal a tightening of monetary policy to support the exchange rate. What is interesting to note, is the falling volume of bids and the declining volumes that were accepted despite the gradual increase in the cut-off rates.

¹⁸ This need for immediate liquidity increased sharply during October 2000, following SBP's decision to increase cash reserves requirements (CRR) by 2 percentage points on 7th October 2000. This will be discussed in more detail in the next Quarterly Report.

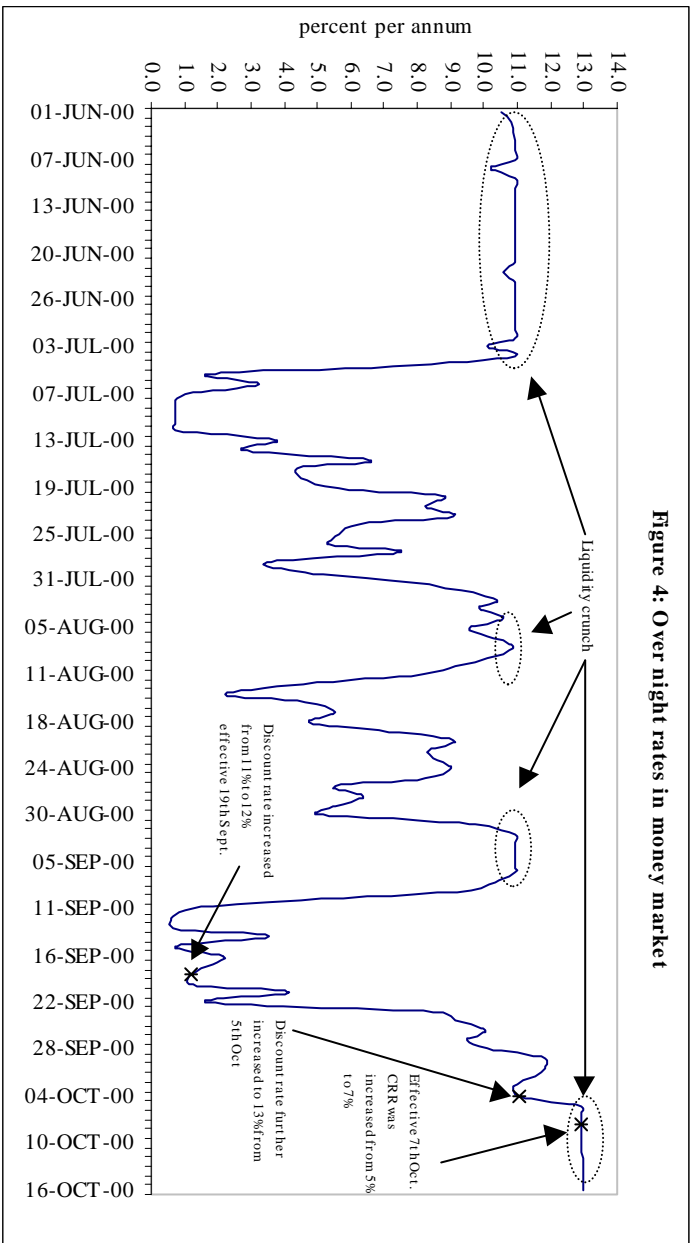
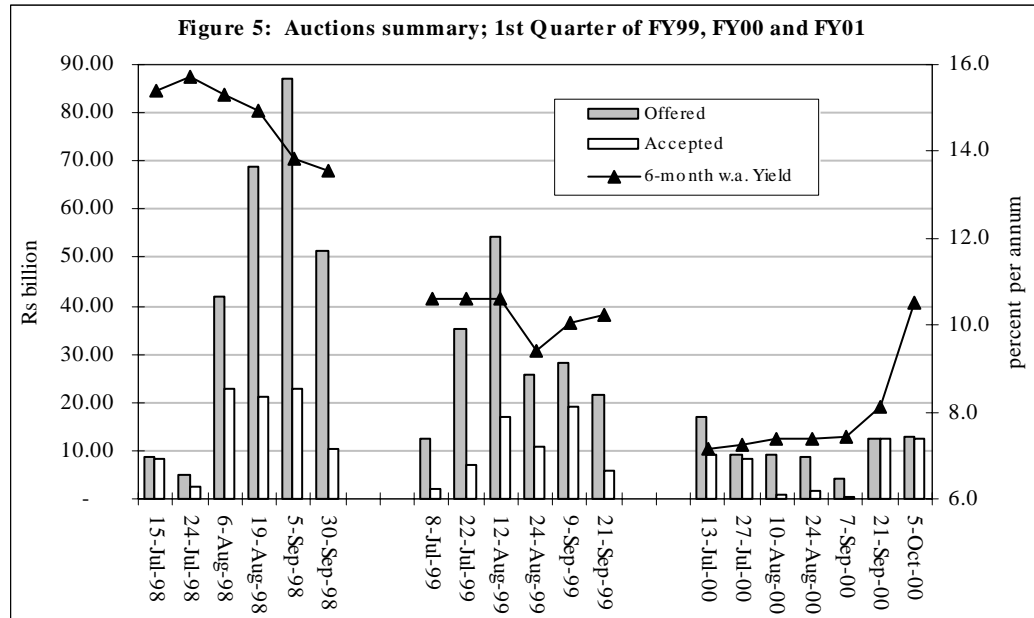
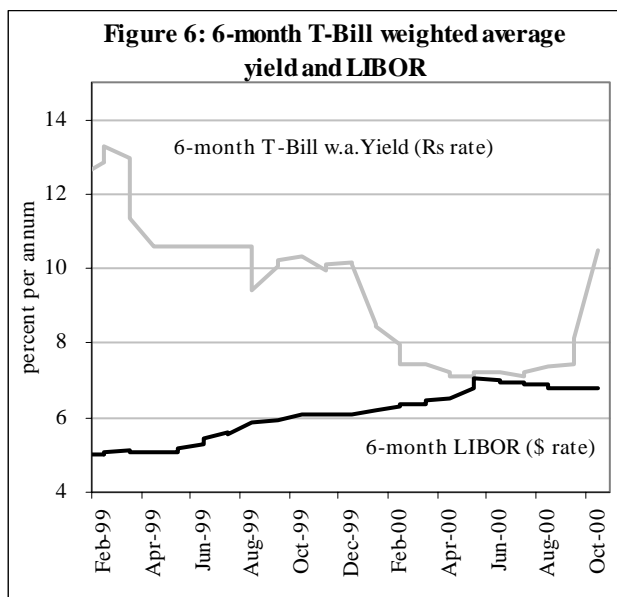


Figure 4: Overnight rates in money market



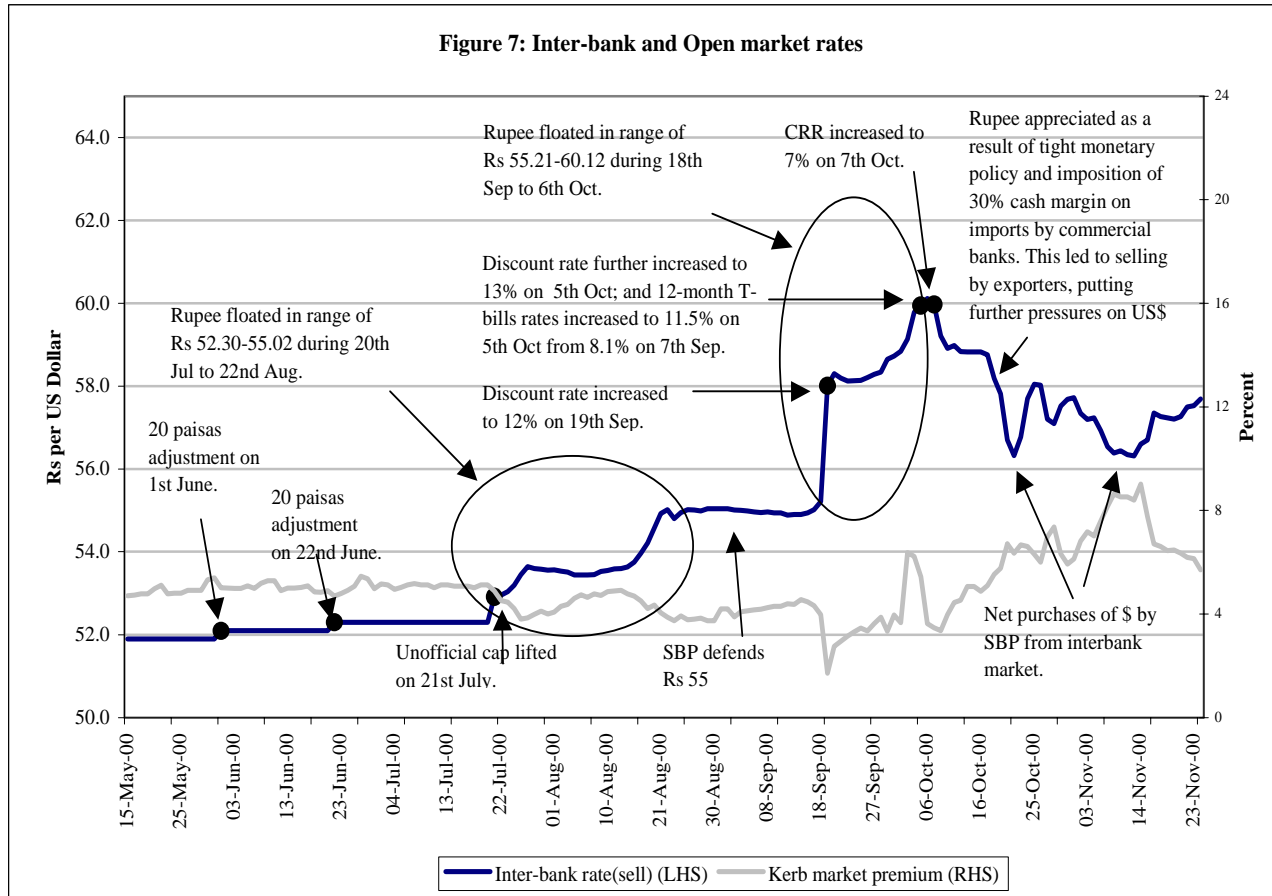
Against bids offered by banks and those accepted, Q1-FY00 saw bids of Rs 177.0 billion of which only Rs 61.5 billion was accepted. This contrasts with bids of Rs 60.7 billion in Q1-FY01 of which Rs 32.0 billion was accepted. This reflects two issues: (1) stagnant T-bill rates and tighter liquidity in Q1-FY01 could justify the smaller volume of bids, and (2) the need to increase T-bill rates explains the increase in accepted bids.



The free float of the Rupee in September 2000 can be split into two periods. The first moved the Rupee to Rs 55 per Dollar, at which point SBP intervened by selling hard currency to support the Rupee. By 18th September, SBP's subtle permission to allow the rate to exceed Rs 55 coupled with the market perception that SBP did not have the resources to credibly defend a higher rate, resulted in a very sharp depreciation of the Rupee (see **Figure 7**).

To defend the Rupee, SBP had to signal a sharp turnaround in its monetary policy. The discount rate was increased to 12 percent on 19th September, while T-bill rates increased in the 21st September auction from 7.4 to 8.1 percent (6-month weighted average). Although this tightening was able to temper the sharp increase in the Rupee exchange rate, pressures continued to build and the rate began to edge towards Rs 60. In response, SBP took harsh corrective measures to tighten domestic liquidity in an effort to contain the Rupee-Dollar bids that importers seemed willing to pay. On 5th October, the discount rate was further increased to 13 percent, while in the primary auction on the same date, the weighted average 6-month T-bill rates increased from 8.1 to 10.5 percent. To

Figure 7: Inter-bank and Open market rates



leave no doubt that monetary policy was being tightened, cash reserve requirements (CRR) were increased from 5 to 7 percent on 7th October; this final step succeeded in easing the pressure in the foreign exchange market. To consolidate this calm, commercial banks decided to impose a 30 percent cash margin on imports (excluding POL) to discourage front-loading of import orders. By the middle of October, the exchange rate had settled down to almost Rs 58.¹⁹

Banking system

The positive development this quarter is the fall in currency in circulation (see **Table 7**). On the basis of what was actually realized in terms of the accountability drive, the hesitancy of individuals in terms of funds placed in banks, began to wear off. In terms of bank deposits, although overall M2 fell by a nominal Rs 3.4 billion, there was a significant shift from demand deposits to term deposits. Furthermore, with the Hajj sponsorship scheme starting earlier than in FY00, Rupee and foreign currency deposits to finance Hajj travel began to have an impact in August and September 2000.

With a tapering volume of conversion from frozen FCAs and fresh inflows into FE 25, the outstanding volume of resident FCAs increased by Rs 8.8 billion. Since FE 25 deposits do not provide Rupee liquidity to mobilizing banks, *Rupee generating* deposits in the banking system actually fell by Rs 22.6 billion during Q1-FY00. However, with the sharp increase in Rupee term deposits in Q1-FY01, Rupee generating deposits only fell by Rs 0.7 billion. A word of caution is still in order: with the rapid loss in the value of the Rupee in end-September 2000, this is likely to have rekindled domestic dollarization. Since the bulk of fresh inflows into RFCAs are through the FE 25 scheme that does not provide Rupee liquidity, unlike the pre-May 1998 dollarization that actually helped banks, a more recent trend towards dollarizing domestic savings will continue to keep banks in a liquidity crunch. Hence, efforts must be made by commercial

¹⁹ In fact, the lagged impact of tightening liquidity and fears that the exchange rate could come down further, prompted exporters to off-load the positions they had been building in the hope of realizing higher Rupee proceeds. With importers backing off and exporters selling hard currency, the Rupee exchange rate dipped below Rs 56. In the interest of maintaining some stability in the foreign exchange market and to meet the target set by the IMF, SBP started purchasing Dollars from the interbank market to shore up the value of the Dollar.

banks to mobilize Rupee deposits, since this is one of the main reasons for the liquidity shortage plaguing banks over the past year.

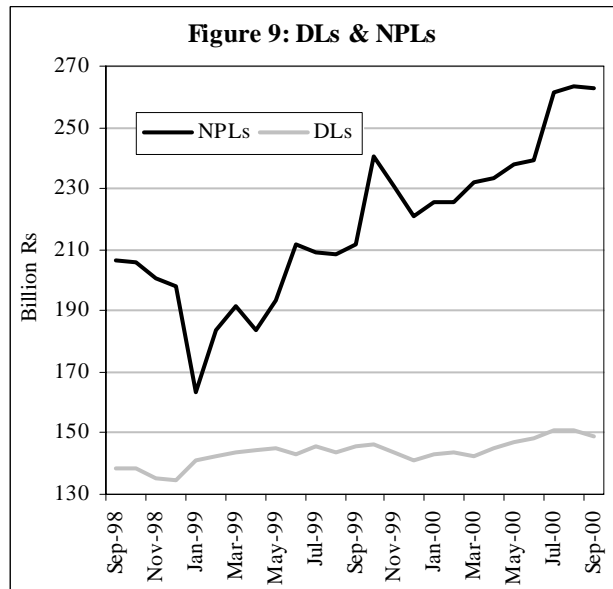
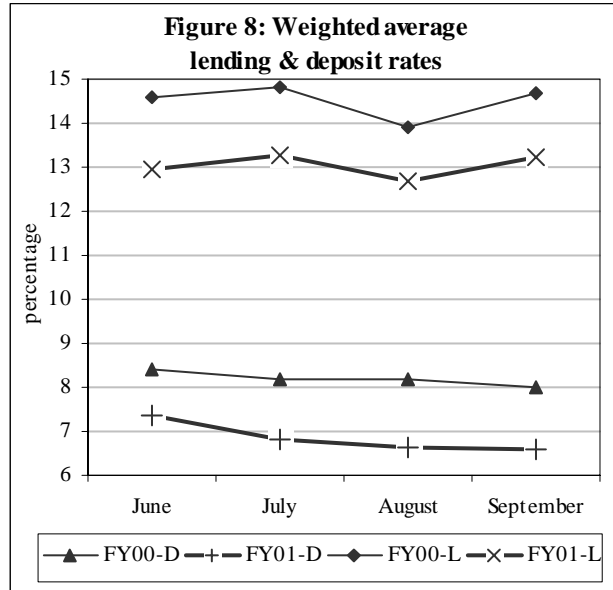
As shown in **Figure 8**, average lending rates in the banking system fluctuated around the 13 percent mark, showing a remarkable degree of monthly seasonality with rates in Q1-FY00. However, deposit rates stagnated below 7 percent, as revenue pressure on banks encouraged these institutions to begin shaving deposit rates during the course of FY00. Given the recent increase in T-bill rates and the liquidity problems facing banks, it is possible that deposit rates have bottomed out.

Looking at non-performing loans (NPLs) and defaulted loans (DLs) in **Figure 9**, the sharp increase in NPLs in July 2000 is primarily because of more accurate reporting of substandard assets. More specifically, a new performa is being used to gauge the actual incidence of bad loans. In the past banks were asked to report the outstanding volume of NPLs and defaulted loans as of the end of each month. The new method asks banks to list past and present-month numbers, and also to justify why the figures have changed. By tracking the monthly changes in NPLs and DLs, banks have had to review their classification and to be more candid in their disclosures. In this regard, certain NCBs, Specialized banks and DFIs have shown higher volumes for NPLs (in particular) and DLs.

Prices

The annual average rate of inflation started to pick up in the first quarter of the current fiscal year, with the pressure coming from non-food items. More specifically, the most prominent increases in the CPI have been recorded under *fuel and lighting*, and *medicines*. The 7.2 percent increase in medicines was driven by the Health Ministry's permission to raise retail prices by 8 percent for controlled medicines and 10 percent for decontrolled drugs. The rationale for the 6.8 percent increase under *fuel and lighting* is the 15 percent upward revision in gas prices.

More specific aspects of the inflationary trends are shown in **Table 8** and discussed below:



- The YoY change in the 12-month moving average CPI increased from 3.6 percent in June 2000 to 4.0 percent in September 2000, as compared to a decline in the comparable period last year.
- Looking at the change in average CPI on a comparable quarterly basis, July-September 2000 recorded an increase of 4.8 percent compared to a 3.3 percent increase shown in Q1-FY00.
- YoY inflation (month over previous year's month) also showed an increase in the SPI and WPI indices; from 2.9 to 4.9 percent in case of the WPI, and from 3.3 to 4.9 percent in case of SPI on a September 2000/September 1999 basis.
- The change in WPI depicts an overall increase of 2.2 percent this year compared to a much smaller increase of 0.8 percent in Q1-FY00 (see **Table 8**). Given the larger weight attached to energy prices, the 10.0 percent increase in *fuel, lighting & lubricants* spearheaded the rise in WPI.
- Additional pressures on wholesale prices have also resulted from the following:
 - Following the increase in natural gas prices by 15 percent, CNG companies also raised retail prices by 9.6 percent effective 1st July 2000.
 - The government has increased the issue price of wheat by Rs 20 per maund (from Rs 300 per maund) on 21st July 2000.
 - PIA increased domestic fares and international freight charges by 10 to 15 percent in August/September 2000.
 - PSO increased fuel prices by 7.5 percent on 25th August 2000. This was followed by another 4.9 percent increase on 12th September 2000, when prices were increased from Rs 10,634 per tonne to Rs 11,151 per tonne.

Price pressures FY01

Looking ahead, prices are expected to come under pressure on account of the following factors: (1) Nepra has approved a 13-paisa increase in the Wapda power tariff against its request for a 31-paisa increase in August 2000, (2) domestic POL prices may rise on the basis of the 3-month moving average

pricing formula,²⁰ (3) the 10.7 percent depreciation of the Rupee has started impacting input prices, (4) the increase in T-bills rates since mid-September 2000, may begin to impact lending and deposit rates, and (5) given the significant imports of tea, pulses, and sugar this quarter, the food sub-group of CPI and SPI will come under added pressure following the depreciation of the Rupee.

Capital Markets

Performance of the Karachi Stock Exchange:

The impact of the settlement crisis in May/June 2000 lingered on during the first quarter of the current fiscal year. Even though the slide that began in the last quarter of FY00 finally bottomed out after hitting a low of 1399.3

on June 9 2000, trading during Q1-FY01 remained confined within a tight range of 155 points in the KSE-100 index (between 1482.17 and 1637.47). Trading volumes also fell dramatically, with the average daily volume at a mere 120 million shares, down nearly 44 percent over the previous quarter (see **Figure 10**).

This change in fortunes can be attributed to a number of factors ranging from the rising interest rates and uncertainty concerning the exchange rate, to the continuing impact of the tax survey, lack of concrete progress over the early privatization of state owned enterprises and

Shares Traded at KSE During the Quarter

Month	Turnover (mln shares)	Avg. daily turnover (mln shares)	Mkt. Capt. (Rs bln)
July	2,672	127	404.4
August	2,366	108	397.5
September	2,640	126	408.5

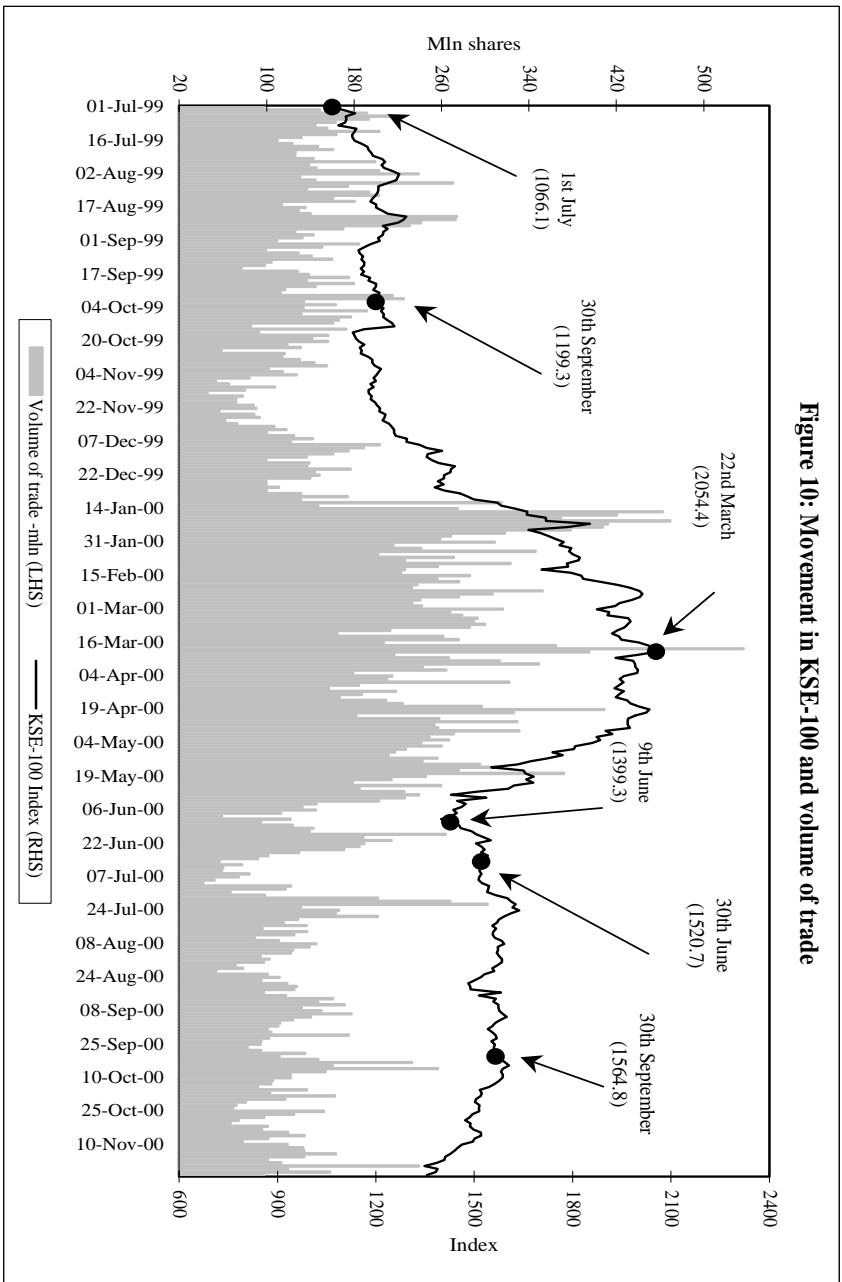
Highlights of KSE-100 for Q1-FY01

(as on September 30, 2000)

(Rs & shares in bln)

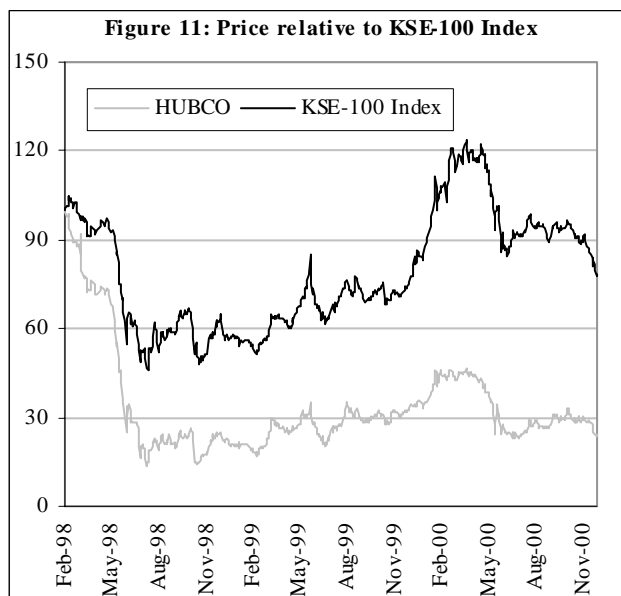
1	Listed Companies at KSE	764
	Change since June 2000 (%)	2.9
	YoY (%)	30.5
2	Listed Capital at KSE	232.2
3	Total Market Capitalization at KSE	408.5
4	Shares traded at KSE during the quarter	7.7

²⁰ Under an agreement with the IFIs, fuel prices are to be reviewed on a quarterly basis, and depending on changes in international prices, retail prices are to be adjusted accordingly.



faltering hopes of an early end to the Hubco-WAPDA dispute. More specifically, the following developments played an important role in the equity markets this quarter:

- Although sale of LPG businesses of public sector gas utilities did go through during the period, these unlisted units did not have much of a spillover in the equity markets; limited progress made towards the sale of the larger listed entities (e.g. PSO and PTCL) did dampen market sentiments. Even the promulgation of a new privatization law at the end of September 2000, failed to solicit much of a market response, which continued to perform murkily.
- Another key driver for the KSE-100 was Hubco. In fact, buoyed by hopes of IFI support, the scrip's fortunes ebbed and flowed with market rumors of an imminent settlement of the dispute with Wapda. However, the failure of concerned parties to reach a workable agreement caused selling in Hubco. This lingering dispute proved to be a double negative from the market's perspective – other than the dominant role of Hubco in trading



sentiments, as the resolution of this long-standing issue was perceived to be an IFI precondition; the failure of each successive initiative to arrive at a settlement was seen to imply that the IMF would also hold back its

much-needed assistance. Hence, the Hubco scrip remained under pressure for the whole period. Being an index heavyweight, any change in price of Hubco is reflected in the KSE-100. **Figure 11** show the performance of Hubco scrip since February 1998, and also the disproportionate impact of this scrip on the KSE-100 index.

- Lower than expected financial performance of index heavyweights like PSO, resulted in selling pressures, which in turn exerted downward pressures on the KSE-100.

Corporate bond market

The domestic corporate debt market is looking bullish following recent reforms by the government, most prominent of which are changes in National Saving Schemes (reducing rates and banning incremental institutional investment), and the launch of the Pakistan Investment Bond (PIB) on 12th December 2000. The ban on institutional investment has created substantial demand from institutional savers (such as pension funds and insurance companies) for long-term investment options. In the interim absence of a long-term government bond, only TFC issues could meet this demand. Not surprisingly, corporates were quick to take advantage of these favorable conditions, and with low interest rates at the beginning of FY01, a number of fresh TFC issues were initiated. Although, the impact of PIBs on the TFC market is yet to be seen, it is expected that this will benefit the corporate debt market in the long run. The primary motivation behind a new LT government paper is to create a market determined yield curve that will anchor NSS rates, provide corporates with a benchmark to price their debt, and to provide a risk-free investment option for institutional investors.

In order to provide a further impetus to the corporate debt market, the KSE in collaboration with the Central Depository Company (CDC) has reduced the annual listing fee for TFCs. The KSE has also reduced broker's commission from 1.0 to 0.25 percent, and the fixed service charge of Rs 25,000 has been revoked. Additionally, the initial listing fee has been reduced from a maximum of Rs 1.0 million to Rs 0.5 million. Similarly, the CDC has reduced its annual registration fee for TFCs by 25 percent effective 1st November. These changes

are expected to translate into low issuance costs for TFCs, which should also help develop this market.

External Sector

The external sector remained under pressure during the first quarter of FY01 due to rising international oil prices and lingering discussions with the IFIs. In terms of realized proceeds, the trade deficit was US\$ 476 million in Q1-FY01 compared to US\$ 466 million in the corresponding period last year. However, the current account deficit (including official transfers) increased by US\$ 148 million during 1QFY01, primarily because of higher service payments (see **Table 9**).

Increasing payment pressures on the current account coincided with a smaller *notional* capital account deficit, but this was primarily because of: (1) higher inflows via the Saudi Oil facility (because of the increase in oil prices), (2) a fall in net foreign investment, (3) falling conversion to Rupees by non-resident FCA holders, and (4) a pre-determined rescheduling agenda that resulted in a smaller volume of roll-over of commercial credit. On the basis of these issues, the capital account only posted an outflow of US\$ 296 million this quarter, against outflows of US\$ 1,096 million in the corresponding period last year.

With a smaller exceptional financing gap this quarter and a larger current account deficit, liquid reserves depleted by US\$ 324.1 million compared to US\$ 179.0 million last year. Looking ahead, Pakistan's balance of payments should improve with the IMF program. Although actual inflows of IMF assistance will be staggered depending on whether Pakistan is able to meet certain targets during the course of FY01, with the additional debt rescheduling and financial assistance from ADB, sentiments amongst exporters and importers should placate the foreign exchange market.

Current account deficit

Although the trade deficit remained stagnant, service payments increased in Q1-FY01. This was driven by higher payments for shipping (a reflection of higher trade volumes) and travel, while payments for debt servicing (public/publicly guaranteed debt and Special US Dollar Bonds) along with dividend and profit repatriation increased relative to Q1-FY00.

In terms of current transfers, although inflows increased in Q1-FY01, the increase in worker remittances needs to be qualified. Looking at **Table 10**, *cash* remittances increased from US\$ 201 million in Q1-FY00 to US\$ 351 million this quarter. The bulk of this increase came from the Gulf region, specifically from Saudi Arabia, Kuwait and UAE. However, the sharp increase from Kuwait reflects a lumpy US\$ 56.1 million inflow in August 2000 (against US\$ 8.4 million realized in September 1999) on account of Pakistani workers who were affected by the Gulf war. Furthermore, Hajj receipts realized in August and September of this year amounted to US\$ 77.4 million, against a corresponding inflow of US\$ 9.5 million last year since the sponsorship scheme was only launched in September 1999. Accounting for these exceptional developments, worker remittances have grown by 18.8 percent over the previous year. Although it is not obvious whether this trend will persist throughout the year, the buoyancy in the Gulf following the sharp increase in oil prices suggests that there should be some positive spillovers to the country.

The fall in resident-FCAs from US\$ 141 million to US\$ 71 million in the corresponding period in FY01 can be traced to two factors. First, although there were no changes in the characteristics of the FCA scheme, the environment in which these deposits were placed was different. FY00 witnessed a great deal of exchange rate stability following a significant depreciation in May 1999. Hence, the incentive to save in hard currency was stronger in the first quarter of FY00 relative to the corresponding period this year. Second, local and multinational corporations began purchasing dollars from the open market, which is explicitly disallowed by SBP. This created buying pressure in the market, which in turn created expectations of depreciation and forced SBP to interrupt its purchases (more on this later). To reverse this process, SBP issued a circular on 21st August forcing institutions to reverse the hard currency transactions deposited in their resident FCAs. On account of these factors, the net inflow of resident FCAs has fallen in Q1-FY01.

Outright purchases decreased slightly to US\$ 227 million in first quarter of FY01 as compared to US\$ 240 million in Q1-FY00. Open market purchases by corporates and on-going discussions with the IMF raised the kerb premium, in response to which, SBP interrupted its purchases in the first and third week of

July 2000, and for the entire period 21st August to 1st September. The role of the IMF did cause some problems, when the press stated that this IFI did not approve of SBP's outright purchases. The market felt this would add further pressure on the exchange rate, as in the absence of outright purchases, SBP would be unable to finance lumpy payments directly out of its reserves. This view was dispelled when it was formally announced that SBP would continue to purchase from the open market for the duration of FY01. However, the volume of purchases would depend entirely on market conditions since SBP has, and will continue to, tailor its purchases to ensure that it does not add pressure on the open market rate.

Trade Account

The trade deficit (based on customs data) during Q1-FY01 rose by 3.9 percent to US\$ 505.7 million over Q1-FY00. The primary reasons for this are: (a) a higher oil bill as international prices remain firm around an average of US\$30.8 per barrel (Brent Crude), depicting a 47.1 percent rise, (b) increased textile machinery imports under the on-going Balancing, Modernization and Replacement drive (BMR), (c) continuing weak export prices, and (d) higher imports of sugar and pulses, following production shortfalls at home.

Exports

Exports during the first quarter of FY01 stood at US\$2.2 billion, an impressive increase of 14.6 percent over the corresponding period in FY00, but short of the US\$ 2.5 billion target (see **Table 11**). Strong growth in the US and the recovery in East Asia firmed up demand for Pakistani exports. The following points highlight specific aspects of the country's export performance during this quarter compared to the corresponding period last year:

- Raw cotton exports increased to US\$ 26.0 million, reflecting a degree of confidence that the country would once again realize a bumper cotton crop that is currently estimated at 10.2 - 10.4 million bales.
- On the back of this projected bumper cotton crop, coupled with low domestic prices, export of textile manufactures increased by 8.3 percent to US\$ 1.4 billion. However, it's share in overall exports declined from 68.3 percent to 64.6 percent.
- Cotton yarn exports continued to be a major source of foreign exchange and netted US\$ 254.2 million, a 7.5 percent increase over last year. This

increase in export revenues is driven by higher quantities exported, as per unit prices fell by 7.9 percent. The negative price effect of US\$ 21.7 million was more than offset by a positive US\$ 39.4 million quantity effect.²¹

- Weak prices of cotton fabrics resulted in a negative price effect of US\$ 45.9 million, which outweighed the 6.6 percent increase in quantities exported. As a result, cotton fabric exports fell by 9.6 percent (or US\$ 27.2 million) to US\$ 255.2 million this quarter.
- Under textile manufactures, exports of hosiery recorded the largest gain, rising by US\$ 39.4 million to US\$ 251.1 million. This increase can be broken up into positive price and quantity effects of US\$ 38.7 million and US\$ 0.7 million, respectively.
- After a prolonged recession, towel exports grew by an impressive 69.0 percent. The US\$ 21.2 million increase in absolute value is made up of a positive quantum effect of US\$ 22.1 million, and a negative price effect of US\$ 0.9 million.
- Readymade garments continued to post impressive growth, rising by 18.3 percent to US\$ 214.7 million this quarter. Favorable export prices exerted a positive price effect of US\$ 33.7 million, as export quantities fell slightly by 0.2 percent.
- Exports of synthetic textiles posted a net gain of US\$ 29.9 million and amounted to US\$ 134.0 million for the quarter. Growth in quantitative exports contributed US\$ 48.1 million, while lower realized prices eroded this gain by US\$ 18.2 million.
- Pakistani exporters have not been able to fetch good prices for rice exports, primarily on account of poor marketing and quality control. However, as unit export prices exhibited a marked improvement of 22.5 percent, rice exports rose by US\$ 18.9 million to US\$ 110.3 million, despite a slight reduction in quantities exported.
- The exports of fish and fish preparations have shown an increase of 30.9 percent, rising to US\$ 42.7 million this quarter. This increase is driven by a positive price effect of US\$ 10.6 million. Major markets for Pakistan's

²¹ The apprehensions voiced by textile associations concerning the decision to disallow yarn and gray cloth from availing EFS, proved to be unfounded. Another encouraging development is the long awaited establishment of a panel under the auspices of the Dispute Settlement Body of WTO, to examine Pakistan's complaint against the US for imposing anti-dumping duties on combed cotton yarn.

seafood include the European Union, the US, Japan, certain Gulf countries and China.

- Fruit exports increased by 54.0 percent, from US\$ 16.1 million to US\$ 24.8 million. Enhanced export quantities and prices contributed US\$ 3.1 million and US\$ 5.6 million, respectively. A point to mention is the 23.0 percent reported increase in quantitative mango exports this season (June to August), following successful road shows arranged by the Export Promotion Bureau in European countries in June 2000.
- Leather exports that had remained sluggish over the last five years, exhibited a 37.7 percent increase on the basis of higher quantities (a positive quantity effect of US\$ 18.3 million). However, falling export prices exerted a negative price effect of US\$ 4.5 million. Total exports stood at US\$ 50.4 million, compared to US\$ 36.6 million in Q1-FY00.

Imports

Imports during the first quarter of FY01 stood at US\$ 2.7 million, showing a comparatively slower growth of 12.5 percent; the rise in the corresponding quarter last year was 15.5 percent (**Table 12**). Following are the major developments in the import of goods this quarter:

- Even with the increased production of oil by OPEC and the daily release of one million barrels from America's Strategic Petroleum Reserve that was announced by the US government, oil prices remained in the vicinity of US\$ 30 per barrel. Consequently, Pakistan's oil import bill rose by US\$ 456.6 million (or 84.2 percent) to nearly US\$ 1 billion.
- Given the shortfall in domestic production, sugar imports rose by US\$ 89.3 million. Lower unit prices resulted in a negative price effect of US\$ 32.1 million, while the quantity effect was US\$ 121.4 million.
- Edible oil imports declined by US\$ 21.0 million to US\$ 94.8 million despite a 6.9 percent increase in quantity imported.
- Textile machinery imports during the period depicted a sharp increase of 148.9 percent, a reflection of the BMR process currently underway in the textile sector. Imports rose to US\$ 85.5 million, from US\$ 34.4 million in the comparable quarter last year.

- In response to the intensive efforts by the government to promote IT, imports of office machinery (largely comprising computers) rose by 74.6 percent to US\$ 62.1 million.
- With a bumper crop at home which is still unsold, wheat imports fell by US\$ 33.5 million to only US\$ 9.4 million.

Capital Account

The capital account showed a marked improvement both in terms of inflows (which increased from US\$ 748 million to US\$ 921 million) and outflows (which decreased from US\$ 1,844 million to US\$ 1,217 million) in the first quarter of FY01 over the corresponding period in FY00. In net terms, Pakistan's capital account fell from outflows of US\$ 1,096 million to only US\$ 296 million. **Table 13** presents movements in the various components of the capital account.

Net foreign investment

Foreign direct investment posted a steep decline from US\$ 149 million to US\$ 36 million this quarter, primarily due to the disinvestment of Bank of America. There was a net outflow of US\$ 33.5 million on account of paid-up capital that had to be reimbursed by SBP. Furthermore, the country was unable to solicit fresh foreign interest due to the uncertainty associated with the negotiations with the IMF and the lingering dispute with Hubco. Portfolio investment did not show any perceptible change due to the lackluster performance of the stock markets.

Long-term capital (official)

Long-term official capital showed much larger outflows this quarter (US\$ 382.0 million) relative to US\$ 114.0 million in the first quarter last year for two reasons. First, there was a rollover of US\$ 250 million from Kuwait (in August 2000), which was recorded as an outflow in the capital account. Second, there was a fall in official project assistance from G-7 countries (by US\$ 126 million), which was partially offset by a US\$ 69 million increase in non-food aid and lower amortization payments (see **Table 9**).²²

²² Non-food aid refers to financing from the Saudi Oil facility, which increased from US\$ 146 million in Q1-FY00 to US\$ 215 million in Q1-FY01).

Long-term capital (others)

Long-term capital (others) largely comprises non-contractual flows from parent companies to MNCs operating in Pakistan and supplier's credit to finance imports. The net impact of this head shows a sharp reversal from outflows of US\$ 145 million in Q1-FY00 to inflows of US\$ 22.0 million this year. The swing factor here was longer-term foreign exchange swaps conducted with financial institutions overseas (item 6.3).

Short-term capital (official)

Short-term capital shows the sharpest reversal from outflows of US\$ 386 million in Q1-FY00 to inflows of US\$ 159 million in the first quarter of FY01, primarily due to: (1) a fresh inflow of US\$ 134 million from the Islamic Development Bank (IDB), (2) a fresh inflow of US\$ 115 million from UAE, and (3) the rollover of US\$ 300 million SBP deposit from UAE in Q1-FY00.

Short-term capital (deposit money banks)

Short-term capital solicited by commercial banks also staged a reversal with inflow of US\$ 33 million against outflows of US\$ 286 million in the corresponding period last year. The bulk of the difference is on account of the rollover of FE 45 funds (US\$ 141 million) and the conversion of non-resident FCAs (US\$ 168 million, both by individuals and institutions) into Rupees and US Dollar Bonds. Since FE 45 funds were to be paid off this year (they have, however, been further rescheduled in November 2000), they are not being shown in Q1-FY01. In terms of conversions, the smaller volume this year (US\$ 43 million) is an adequate reflection of the fact that the momentum to convert out of frozen FCAs has slowed down appreciably.

Short-term capital (others)

The outflow from Short-term capital (others) is largely on account of outstanding export bills held by individual exporters (item 9.1) and movements in non-resident FCAs placed with *NBFIs*. Again, of the US\$ 265 million outflow this quarter, US\$ 117 million represents FE 45 funds that were rolled over, while US\$ 156 was either converted to Rupees or US Dollar Bonds (the bulk entailed conversion to Rupees). The interesting development is the US\$ 135 million outflow on account of a build-up of outstanding export proceeds by exporters themselves. This implies that during the course of Q1-FY01, exporters have

held back their proceeds (by this amount) in an effort to gain from a further exchange rate depreciation. Since this foreign exchange is shown as export receipts in the trade account, a corresponding outflow is necessary to show the actual hard currency realized.

In overall terms, the capital account showed lower net outflows because of smaller volumes of conversions (non-resident FCAs) and the absence of rollovers that were present in FY00. The exceptional financing gap was therefore smaller because the capital account gap had shrunk. With the expected rescheduling in January 2001, the exceptional financing gap for the full year FY01 is expected to be lower than in previous years, but the magnitude of the fall will be much less than what has been posted in Q1-FY01 relative to the corresponding period last year. Nevertheless, Pakistan's liquid reserves registered a decline of US\$ 324.1 million in the first quarter of FY01 against a fall of US\$ 179.0 million in the corresponding period last year.

Pakistan's exchange rate

Figure 7 shows an illustrated review of the main developments in the exchange rate during the first quarter of FY01, which is self-explanatory. However, the depreciation witnessed in the end of Q1-FY01 is analyzed in **Special Section 1**, in terms of the impact on the real effective exchange rate of the Rupee.

Special Section 1: Pakistan's Real Effective Exchange Rate²³

Exchange rate is a powerful policy tool that influences resource allocation by changing the incentive, outward orientation and cost structure of the economy. It is therefore important to have an exchange rate index that reflects the true price of the Rupee vis-à-vis important/relevant world currencies. This section will be structured as follows: (1) definition of the real effective exchange rate, (2) an explanation of the different indices that have been developed by SBP, (3) analysis of these indices relative to the REER prepared by the IMF, and (4) details of the actual calculation of these indices.

Definition

The *effective exchange rate* (EER) is a concept that represents the true domestic price of a foreign currency. It has two distinct meanings in economics. In one usage, it refers to an exchange rate that is adjusted to include the average effects of tariffs, subsidies, and other fees/charges on the cost of imports at home and exports to foreigners. In recent years, the prevalence of tariffs has fallen but non-tariff barriers have proliferated. Since the impact of a non-tariff barrier is difficult to quantify and may change markedly over a short period of time, a more tractable definition of the effective exchange rate is used frequently, which refers to calculating the weighted average of a country's exchange rates with its major trading partners/competitors.

With the value of a hard currency determined in international markets, there is a need to constantly monitor the strength of the domestic currency in relation to several important currencies. The *nominal effective exchange rate* (NEER) measures a country's exchange rate vis-à-vis its trading partners/competitors relative to a base year. In other words, NEER is a composite measure of the exchange rates of several currencies against the domestic currency, giving a more comprehensive picture of bilateral exchange rates since there is a tendency to use the US Dollar as the universal benchmark.

Movements in the NEER, however, do not say anything about the purchasing power of a currency, which implies that it cannot gauge how the competitiveness of a country's tradable goods may have changed over time. In order to account

²³ Ownership for this section goes to Syed Sajid Ali (Assistant Director, GERD)

for purchasing power, the *real effective exchange rate* (REER) is calculated after deflating the NEER by a measure of relative price movements. The price indices that have been used to calculate the REER are consumer prices indices.²⁴ The deviations of the REER from its base value measures the effective change in alignment of domestic price levels from a purchasing power parity standard. This index, like most indices, is typically set to 100 in a base year. *The level of the index has no meaning; only changes in the index matter.*

The REER for Rupee is calculated as a *geometric* weighted average of the level of consumer prices in Pakistan relative to its trade partners/competitors²⁵. The currencies included in the basket and the weights assigned to them, are mainly determined by practical considerations, primarily to ensure that these currencies account for a high portion of Pakistan's total trade, where the assigned weights are true representative of their competitive position.²⁶ Finally, the base period should roughly be in the middle of the time period for which the EER is calculated.²⁷ Keeping the above considerations in mind, an average of 1995 was chosen as the base period for Pakistan as it lies almost in the middle of 1991-2000, for which the EER is being calculated.²⁸

²⁴ Other indices like normalized unit labor costs in the manufacturing sector, export unit values, import unit values, wholesale prices, and the GDP deflator are also used. The results obtained from each of these indices will differ, because each measures relative competitiveness with a different focus.

²⁵ The *geometric* averaging has certain advantages over other alternative calculations based on arithmetic averaging (e.g. Laspeyres, Paasche, Palgrave indices). For example, geometric average satisfies the time reversibility test implying that the index number is independent of the base period. This means that percentage changes from one period to another will always be the same, regardless of the base period chosen for calculating the EER index. Therefore, the choice of base period will only be important where normative significance is attached to it; where it is deemed that exchange rate is in equilibrium.

²⁶ In order to maintain 'realistic' weights, periodic updating is necessary.

²⁷ The base period should also be cyclically neutral, i.e. it is preferable to have an average of single or several years as a base period to factor in special developments in the past.

²⁸ For presentation purposes, REER series are reported since January 1995. Further, for a better comparison, all series were made to start from 100 by converting their base to January 1995=100.

At present, the REER for the Rupee is calculated on the basis of a basket of currencies and assigned weights that are provided by the IMF (published in the *International Financial Statistics - IFS*). Given its significance as an indicator of external competitiveness and the pricing of all trade transactions, it is necessary to evaluate this index by comparing it with other indices based on alternative currency baskets and weights. With this objective, several REER series have been computed by SBP using different weighting schemes, each designed to meet a specific aim. These will allow for more disaggregated analysis of the real value of the Rupee relative to different subset of currencies. The added advantage of this computation is the *updated weights* based on recent trade data (as against the IMF index that uses trade data for 1988-90).

REER indices

REER based on export partners (REER^x): This index is based on bilateral export shares of 19 countries, covering 80 percent of Pakistan's exports.^{29 30} It reflects competitive position of Pakistan's exports *only* in the markets of trading partners. In other words, it captures the impact of developments taking place in export partner countries on domestic cost changes.

REER based on import partners (REER^m): This series, based on bilateral import shares, focuses on Pakistan's major import partners and reflects the competitive position *only* in the domestic market.³¹ It can be regarded as a measure of potential import penetration. Since imports from Saudi Arabia and Kuwait are largely dominated by petroleum and petroleum products quoted in US Dollar, changes in their exchange rates *do not* impact Pakistan's import of POL.

²⁹ The weights have been assigned on the basis of the average share of each country in Pakistan's exports during last three years, i.e., FY98-00. For this purpose, trade data released by the Federal Bureau of Statistics (FBS) has been used. The currency basket does not include UAE, as its CPI series is not available.

³⁰ Bilateral weights consider only trading partners (on the basis of either export, import or total trade shares) thereby covering competition in the domestic market and/or second market in the foreign country. Multilateral weights, on the other hand, also take into account the effects emanating from other countries competing in third markets.

³¹ It is constructed on the basis of 18 countries, covering 80 percent of Pakistan's total imports. The weights have been determined by averaging the share of each country in Pakistan's imports for FY98-00 based on FBS data.

However, changes in US Dollar in the international market have strong implications for the price of Pakistan's imports. Therefore, the weights of Saudi Arabia and Kuwait have been merged with USA to get a true reflection of the impact of the strength of the US Dollar on Pakistan's import bill.

REER based on competitors (REER^c): This series reflects the competition in third-market *alone* and has been computed on the basis of Pakistan's 13 major competitors (see **Table 1**). In general, this index seeks to gauge the relative competitiveness of Pakistani exports against our closest competitors. The list comprises exclusively of developing countries³².

Overall REER (REER^o): The overall series has been computed on the basis of a multilateral weighting scheme, which is more comprehensive mechanism that overcomes the shortcomings of bilateral weights. Under this mechanism, the weight assigned by Pakistan to any country (say India) is composed of two components:

- India's share in the total of imports of other countries included in Pakistan's REER basket; and

³² Trade data reported in latest available *International Trade Statistics Yearbook* for 1996 by the United Nations is used to determine the weight attached to an individual competitor country by Pakistan. As a first step, 15 products were identified at 3-digit Standard International Trade Classification (SITC) level. These products primarily included cotton, textile yarn, fabrics, clothing and accessories etc., covering 78.5 percent of Pakistan's exports in 1996. In the next step, a list comprising major exporters for each of the 15 products, identified at the first stage, was prepared. This list also includes developed countries, which can be ignored on two grounds: (a) exports of developed countries are more advanced and better in quality, therefore, Pakistan has no competition with them, and (b) their exchange rates remain more or less stable (they are less prone to speculative attacks or other currency crisis). This list was further shortened by excluding Uzbekistan, Turkmenistan (as they were exporting only low value added items like cotton which Pakistan may not like to export) and Tunisia (due to data constraints). Taiwan, an import competitor of Pakistan, could not be included in the basket as trade data was not available. Finally 13 countries were identified which were competing with Pakistan in export of cotton, textile and clothing. In the final step, exports of 15 products identified at first stage by these 13 competitors were normalized to derive the competitive weight attached by Pakistan to each country.

- Pakistan's export share with respect to countries in the basket including India³³.

These weights have been computed by using trade data reported in *Direction of Trade Statistics Yearbook 1999* by the IMF³⁴.

Table 1.1: Basket Composition under various weighting schemes

REER ^s	REER ^m	REER ^c	REER ^o	REER ^{IMF}
Australia, Bangladesh, Belgium, Canada, China, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Netherlands, Saudi Arabia, South Korea, Spain, Sri Lanka, UK, USA	Australia, Belgium, China, France, Germany, India, Indonesia, Iran, Italy, Japan, Kenya, Malaysia, Netherlands, Singapore, South Korea, Thailand, UK, USA	Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, Mexico, Poland, Singapore, South Korea, Sri Lanka, Thailand, Turkey	Bangladesh, Canada, China, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Malaysia, Mexico, Netherlands, Saudi Arabia, Singapore, South Korea, Spain, Sri Lanka, Thailand, Turkey, UK, USA	Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, Saudi Arabia, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, UK, USA

REER by the IMF (REER^{IMF}): The computation of REER by the IMF relies on a weighting scheme that takes into account bilateral trade in manufactures and primary commodities, as well as third market competition in manufactures, covering the period 1988-90.³⁵

³³ Mathematically, the double-weighting scheme may be thought of as pre-multiplying a matrix of bilateral import shares for all countries included in the index by a vector of Pakistan's export share.

³⁴ For that purpose, trade figures have been averaged over Calendar Year 1996-98. In total, 22 countries were included in the overall REER. This series has a clear advantage over other series computed earlier, as it considers export competition in second and third markets.

³⁵ For each category of goods, separate weights are computed which are then aggregated to provide the overall weight attached by Pakistan to other countries. Trade data used to compute weights is obtained from the Trade Analysis Reporting System (TARS), which

Data for prices and exchange rates is obtained from various monthly issues of IFS. Consumer price index (CPI) has been used as price deflator for both Pakistan and countries included in the baskets³⁶. Further, in order to remove the impact of seasonal variation of prices on the computed REER, CPI series are seasonally adjusted.

Analysis

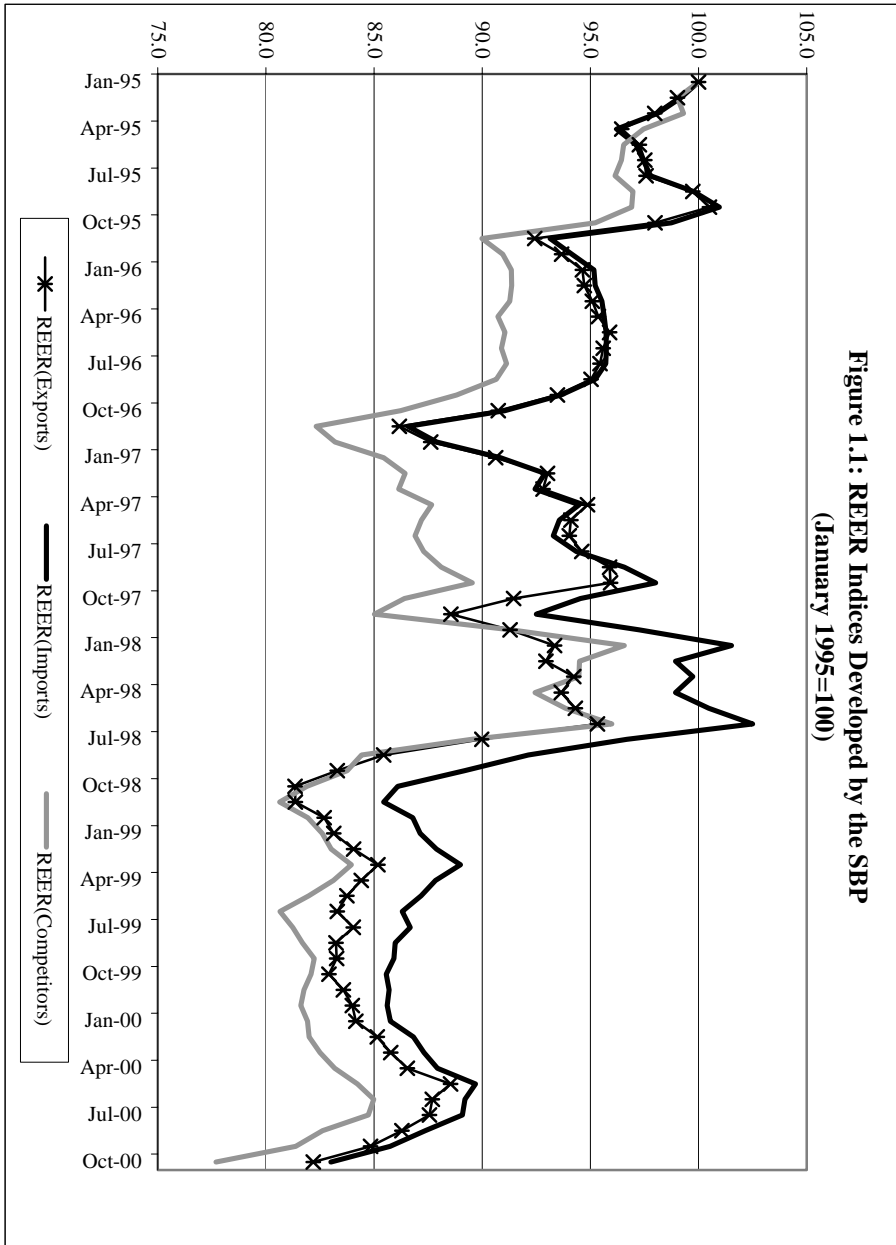
With a view to make a meaningful comparison of the several REER indices that have been computed, the starting point of all series is initialized to the base month of January 1995. In comparing these indices with IMF's index, it is important to recognize the specific focus of each index designed by SBP. All these indices assume one fundamental factor - all exports are priced in Rupees and only reflect local costing factors (vice versa for imports). This is certainly not the case in the real world, which undermines the accuracy of the REER; data constraints force the use of the overall consumer price index. On the basis of this analysis, the following observations can be made:

1. Although, the overall trends are similar, there exist distinct trajectories posted by the different series. For example, $REER^c$ is at the most depreciated level relative to January 1995, followed by the REER based on exports, imports, overall, and the IMF index. In simpler terms, this implies that the Rupee has shown the greatest depreciation (in real terms) relative to our export competitors, and the least by the IMF's REER.
2. The REER based on Pakistan's imports and exports show an interesting development (see **Figure 1.1**). The two indices almost overlap till mid-1997, after which the $REER^x$ fall sharply relative to $REER^m$. This point of divergence coincides with the start of East Asian crisis, and shows that East Asian countries export more to Pakistan, than what we export to them. As shown in **Table 1.1**, $REER^x$ only includes two South East Asian countries (weight is 5 percent) where $REER^m$ contains four (combined weight 17

accesses the COMTRADE database of United Nations Statistical Office; this is averaged over 1988-90.

³⁶ Where required, appropriate techniques are used to fill in the gaps in CPI series. Additionally, the CPI series are projected up to October 2000 on the basis of 12-month compound growth rate, as the prices were available till June 2000.

**Figure 1.1: REER Indices Developed by the SBP
(January 1995=100)**



percent)³⁷. This is to be expected since East Asian economies are Pakistan's export competitors - *not major export partners*, which $REER^x$ does not capture. This is clearly shown by the sharp increase in $REER^c$ (which includes East & South Asian currencies hit by the crisis) in October 1997.

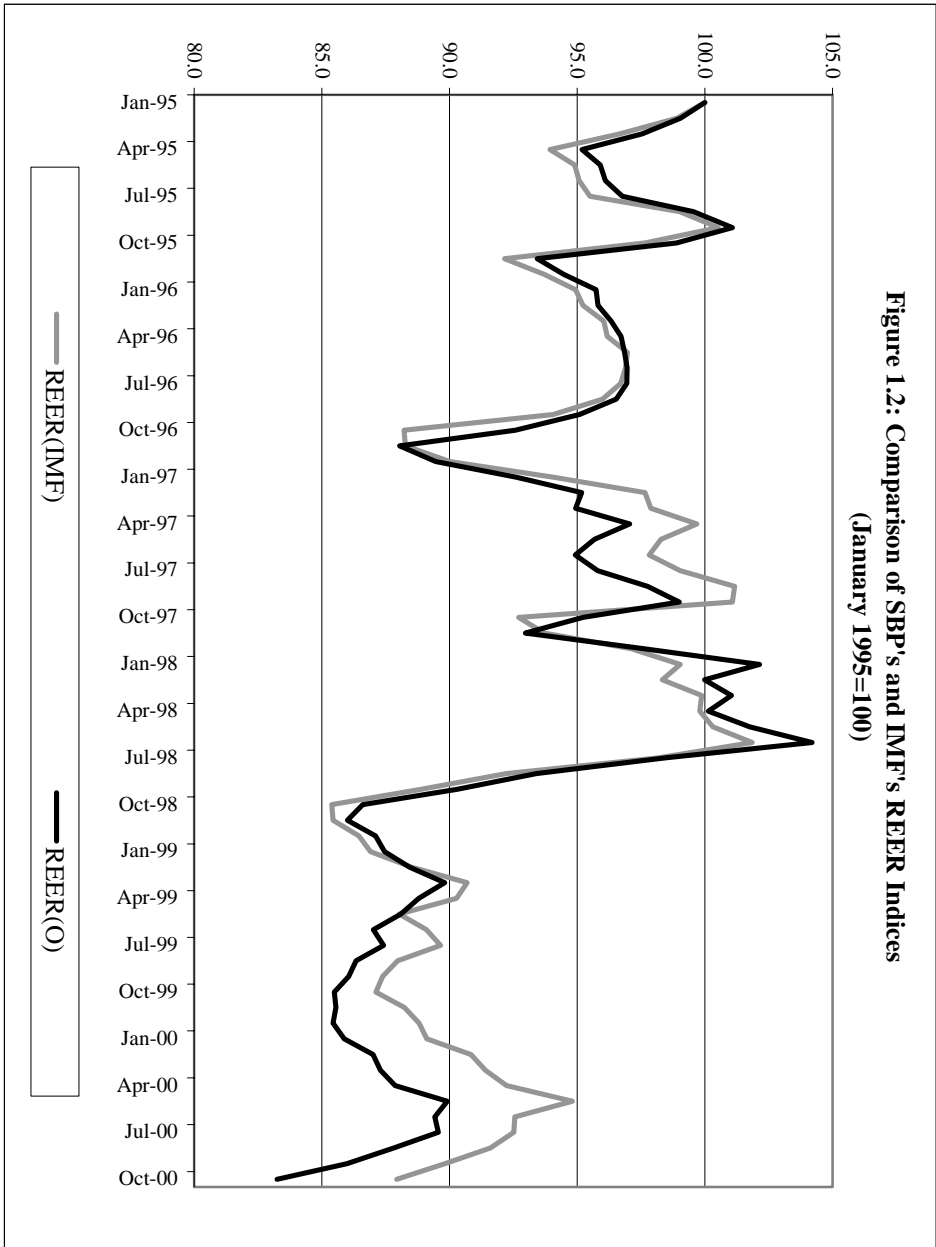
3. The index based on competitor countries has always remained below the $REER^o$ and $REER^{IMF}$, serving as a lower boundary for REER trends (see **Figure 1.2**). This is largely due to higher inflation rates in those countries with which Pakistan's exports compete in third markets. It may be pointed out that the basket of competitors *only* includes developing countries (with the exception of Singapore), which generally experience higher inflation compared with developed countries. On the other hand, developed countries account for 82 percent of the weights attached in the $REER^{IMF}$. Hence, despite record low inflation rates in Pakistan during FY00, the fact that the Rupee exchange rate was stable during the year still resulted in a sharp real appreciation of the Rupee as shown by the $REER^{IMF}$.
4. Although, the $REER^o$ and $REER^{IMF}$ are following remarkably similar trends, there are brief deviation periods between the two series³⁸. First prominent departure was observed during January -September 1997 when the $REER^{IMF}$ was relatively more appreciated. The second major deviation was noticed during November 1997-June 1998 when $REER^o$ series was showing relatively more appreciation. Although, the US Dollar appreciated against all major currencies during both periods, the impact on the two series was different depending upon the relative importance of East Asian and European currencies in their respective baskets. It may be pointed out that four East Asian economies (Indonesia, Korea, Malaysia and Thailand) have a total share of 13 percent in $REER^o$ as compared with 4 percent in $REER^{IMF}$ (see **Table 1.2**)³⁹. Share of all East Asian economies (including Japan) is 43 percent in $REER^o$ as compared with 33 percent in $REER^{IMF}$. On the other

³⁷ East Asian economies are major source of edible oil imports.

³⁸ $REER^{IMF}$ and $REER^o$ have 20 and 22 currencies in their baskets, respectively. Given that only 14 countries are common to both, the degree of overlap is impressive.

³⁹ As a matter of fact, 4 percent is the share of Korea alone, as $REER^{IMF}$ does not include Indonesia, Malaysia and Thailand – economies that were severely affected by the East Asian crisis.

**Figure 1.2: Comparison of SBP's and IMF's REER Indices
(January 1995=100)**



hand, European countries weigh in at 24 percent in the $REER^o$ against 45 percent share in $REER^{IMF}$. During January -September 1997, US Dollar appreciated more against European currencies leading to a relatively more appreciated $REER^{IMF}$; whereas during November 1997-June 1998, US Dollar appreciated more against East Asian currencies, thus leading to a more appreciated $REER^o$.

5. Since February 1999, $REER^{IMF}$ is consistently higher than $REER^o$. In fact, during May 1999 and June 2000 (period of *induced* stability after the unification), the $REER^o$ shows appreciation of 1.5 percent where $REER^{IMF}$ reflects real appreciation of 5.1 percent.⁴⁰ It implies that difference in distribution of weights across East Asian and European currencies has strong implications for REER and any policy decision based on that index.

Table 1.2. Distribution of weights under different weighting schemes

	$REER^x$	$REER^m$	$REER^c$	$REER^o$	$REER^{IMF}$
East Asian Countries	22	37	79	43	33
Selected East Asian countries	5	17.4	23	13	4
Other East Asian countries	17	20	56	29	29
South Asian countries	5	2	9	1	0
European countries	35	21	8	24	45
Developed countries	75	67	0	72	82

Note:

1. Selected East Asian countries include Indonesia, Malaysia, South Korea and Thailand.
2. Other East Asian countries include China, Hong Kong, Japan, Singapore and Taiwan
3. South Asian countries include Bangladesh, India and Sri Lanka.
4. European countries include Belgium, France, Germany, Italy, Netherlands, Poland, Spain, Sweden, Switzerland, Turkey and UK.
5. Developed countries include Australia, Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, Switzerland, UK and USA.

⁴⁰ REER based on competitor countries shows an appreciation of 3.7 percent.

Conclusion

1. Movements shown by the various REER indices (developed by SBP and IMF) reflect how the competitiveness of Pakistan's tradable goods have changed over time. As shown, these indicators are *very* sensitive to the choice of currencies and their weights in the basket. For example, $REER^c$ in October 2000 has achieved the most depreciated level during the period under review, whereas $REER^{IMF}$ is actually showing a marginal appreciation relative to October 1999.
2. It is therefore important to consider the specific aim of each index to interpret the movements in the REER. For example, $REER^c$ focuses only on Pakistan's main competitors in third markets; it ignores the impact of changes in the Rupee price of our imports. Similarly, $REER^m$ shows the country's vulnerability to the price of imports, more specifically, the price elasticity of Pakistan's imports.

Calculation of the REER

Specifically, the CPI-based REER is given by

$$E_i = \prod_{j \neq i} \left[\frac{P_i R_i}{P_j R_j} \right]^{W_{ij}}$$

where j is an index for countries included in the basket; W_{ij} is the weight attached by Pakistan (shown as country i) on country j ; P is the CPI; and R is the nominal exchange rate index (1995=100) expressed in US dollars.⁴¹

The REER is calculated on the basis of three basic steps:

Step 1. Calculate the Nominal Effective Exchange Rate (NEER) as follows:

- Calculate $w_{ij} \ln(R_j)$
- $$NEER = 100 * \frac{R_i}{\prod_{j \neq i} \text{Exp}(w_{ij} \ln(R_j))}$$

⁴¹ In the case of REER for competitor countries, USA is not included in the basket. Therefore, the Chinese Yuan has been used as the numeraire.

- Re-base the NEER to 1995 (average) NEER.

Step 2. Calculate the Relative Price Index (RPI) as follows:

- Calculate $w_{ij} \ln(P_j)$

- $$\text{RPI} = 100 * \frac{P_i}{\prod_{j \neq i} \text{Exp}(w_{ij} \ln(P_j))}$$

- Re-base the RPI to 1995 (average) RPI.

Step 3. Calculate the Real Effective Exchange Rate as follows:

- $\text{REER} = (\text{NEER} * \text{RPI}) / 100$,
- Calculate REER using the re-based NEER data,
- Re-base the above series to 1995 period average.

Special Section 2: Pakistan external debt/liabilities

For the first time, the *Annual Report* for FY00 presented a comprehensive picture of Pakistan's external debt and liabilities for the year. An attempt was made to reconcile the data reported in previous formats with the comprehensive data structure. This section extends the analysis for the period FY95 to FY00, and presents a consistent time-series of Pakistan's external liabilities (see **Table 2.1**). **Table 2.2**, reconciles data from previous *Annual Reports* within the new series format. **Table 2.3** shows debt indicators for the last six years based on this revised format.

In nominal terms, Pakistan's external liabilities as of end-FY00 are almost the same as they were in FY95 (US\$ 37.3 billion). In terms of the ratio of external liabilities to GDP, this stood at 61.3 percent. The two major components of external liabilities are debt and foreign exchange liabilities. While external debt grew at 2.2 percent annually during the period, foreign exchange liabilities declined primarily due to an appreciable reduction in the stock of foreign currency accounts; the outstanding balance had peaked to US\$ 11.0 billion in April 1998, but came down by US\$ 1 billion after the freeze. Since then, there has been an accretion of almost US\$ 0.8 billion, increasing the outstanding balance on foreign currency accounts to US\$ 2.3 billion on 30th June 2000.

Pakistan's external debt consists mainly of public and publicly guaranteed debt, contracted on medium and long-term basis from bilateral and multilateral official sources. This component alone accounts for 76 percent of Pakistan's total external debt. Multilateral institutions, such as the World Bank, IMF, and the Asian Development Bank, have become Pakistan's largest creditors with a share of 38 percent in total external debt – almost equal to bilateral official debt. It is pertinent to point out that this stock of debt cannot be rescheduled. Thus, the potential pool of reschedulable debt is about US\$ 12 – 13 billion, or one-third of Pakistan's total external liabilities.

The popular perception that Pakistan can obtain sustainable debt relief by entering into a rescheduling agreement with the Paris Club, is totally misplaced. Under the most optimistic scenario of full rescheduling by the Paris Club, Pakistan will still have to make payments on two-thirds of its total external liabilities. In some instances, a Paris Club rescheduling enables the country to

Table 2.1: Pakistan's External Liabilities*

(US\$ mln)

	FY95	FY96	FY97	FY98	FY99	FY00
I. Public and Publicly Guaranteed Debt	26,228	26,501	27,182	27,088	26,904	27,654
A. Medium and Long term (> 1 year)	25,976	25,977	26,510	26,536	26,486	27,093
Paris club	10,987	10,344	9,992	10,264	11,873	12,428
Multilateral	10,125	10,959	12,301	12,186	10,599	10,767
Other Bilateral	1,005	972	852	592	629	639
Eurobonds	150	300	760	628	608	610
Foreign Currency Bonds (NHA)	351	329	307	285	263	241
Military debt	2,126	1,745	1,120	1,006	1,004	958
Commercial Loans/Credits	1,232	1,328	828	1,225	1,160	1,100
Others	0	0	350	350	350	350
B. Short-Term (£ 1 year)	252	524	672	552	418	561
IDB**	129	192	291	173	152	130
Others	123	332	381	379	266	431
II. Private non-guaranteed Debts	1,418	2,405	2,705	3,127	3,435	2,842
A. Medium and Long term (> 1 year)	1,418	2,405	2,705	3,127	3,435	2,842
Private Loans/Credits	1,418	2,405	2,705	3,127	3,435	2,842
B. Short-Term (£ 1 year)	0	0	0	0	0	0
III Central Bank Deposits	88	0	150	450	700	700
IV. IMF	1,630	1,535	1,316	1,415	1,825	1,550
Total External Debt	29,364	30,441	31,353	32,080	32,864	32,746
V. Foreign Exchange Liabilities	7,764	9,299	11,011	1,760	4,315	4,558
Foreign Currency Accounts	6,575	8,305	9,844	1,507	2,269	2,349
FCAs prior to freeze	5,376	6,297	7,646	Frozen		
FE-45	1,199	2,008	2,198	1,507	1,380	1,072
FE-25 Deposits	0	0	0	0	617	977
Outside SBP	0	0	0	0	550	616
With SBP (FE 13)	0	0	0	0	67	361
FE-31 Deposits (incremental)	0	0	0	0	272	300
Special US Dollar Bonds	0	0	0	0	1,164	1,297
National Debt Retirement Program	0	0	0	0	225	156
Others Liabilities	600	500	753	253	657	756
FEBC	434	339	260	Frozen		
FCBC	132	147	149	Frozen		
DBC	23	8	5	Frozen		
Total External Liabilities (I to V)	37,128	39,740	42,364	33,840	37,179	37,304
External Liabilities payable in Rupees				8,500	3,391	1,720
Frozen FCAs				8,172	3,196	1,572
FEBC	See Foreign Exchange Liabilities			193	129	109
FCBC	See Foreign Exchange Liabilities			131	63	36
DBC	See Foreign Exchange Liabilities			4	3	3

* Provisional numbers; ** Some of these loans are > 1 & < 2 year maturity.

Table 2.2: Reconciliation with previous debt numbers and revised format*

(US\$ mln)

Previous format	FY95	FY96	FY97	FY98	FY99	FY00
Long-Term (Public and Publicly Guaranteed)	22,117	22,275	23,145	23,042	23,101	23,834
- Consortium	10,684	10,015	9,496	9,120	10,612	11,115
- Financial Institutions	10,012	10,807	12,094	12,034	10,353	10,528
- Non-Consortium	847	853	938	1,529	1,719	1,788
- Islamic Countries	574	600	617	359	417	403
Short/Medium-Term	4,409	5,460	5,140	5,940	6,572	5,622
- Commercial Loans/Credits	1,232	1,328	828	1,225	1,160	1,100
- Private Loans/Credits	1,418	2,405	2,705	3,127	3,435	2,842
- IMF	1,630	1,535	1,316	1,415	1,825	1,550
- IDB	129	192	291	173	152	130
External Debt (previous Annual Report)	26,526	27,735	28,285	28,982	29,673	29,456
New categories (not included earlier)						
Eurobonds (added under PPG-M<)	150	300	760	628	608	610
NHA Bonds (added under PPG-M<)	351	329	307	285	263	241
Military Debt (added under PPG-M<)	2,126	1,745	1,120	1,006	1,004	958
M< (Others)	0	0	350	350	350	350
ST (Others)	123	332	381	379	266	431
Central Banks Deposits	88	0	150	450	700	700
Total	2,838	2,706	3,068	3,098	3,191	3,290
External Debt-revised format (Table a)	29,364	30,441	31,353	32,080	32,864	32,746

PPG: Public and Publicly Guaranteed Debt, M<: Medium and Long-term Debt.

* Provisional numbers.

Table 2.3: Selected External Debt/Liabilities Indicators*

	Stocks (US\$ mln)		Total External debt to (percent)					Total External Liabilities (TEL) to (percent)				
	TED	TEL	GDP	EE	FEE	GNP	RES/TED	GDP	EE	FEE	GNP	RES/TEL
FY95	29,364	36,539	48.5	378.4	237.3	48.1	9.3	61.3	478.5	300.0	60.9	7.4
FY96	30,441	39,246	50.5	366.3	237.4	50.7	6.8	66.0	478.2	309.9	66.2	5.2
FY97	31,353	41,950	52.4	387.3	242.6	52.8	3.9	70.8	523.3	327.7	71.3	2.9
FY98	32,080	42,012	55.4	380.4	240.0	55.9	2.9	58.4	401.2	253.2	59.0	2.7
FY99	32,864	37,179	58.2	436.6	292.3	58.7	5.3	65.8	493.9	330.7	66.4	4.7
FY00	32,746	37,304	53.8	401.4	256.8	54.8	4.1	61.3	457.3	292.5	62.4	3.6

*Provisional numbers.

Note: Foreign Exchange Earnings is the sum of earnings from Goods, services, and income (credit entry from Item A:BOP-IMF/92) and private transfers (credit entry from Item B.7:BOP format IMF/92).

Abbreviations: TED: Total External Debt, TEL: Total External Liabilities; RES: Foreign Exchange Reserves; EE: Export Earnings; FEE: Foreign Exchange Earnings

rollover or make partial payments on its commercial (and other non-Paris Club liabilities), but, as the actual record of FY00 shows, even with the combined effect of the Paris Club rescheduling, coupled with the rollovers and partial payments of all other obligations, Pakistan still had to make almost 50 percent of its total debt servicing out of its own resources.

Table 2.3 summarizes the movements in Pakistan's debt indicators over the last five years. External liabilities/GNP ratio has worsened during this period along with the foreign exchange reserves/external liabilities ratio. There has been some modest improvement in the external liabilities/foreign exchange earnings ratio and external liabilities/export ratio. But the absolute values of the last two indicators are still relatively high, which is placing severe pressure on the balance of payments and forcing the country to reschedule its debt and obtain new capital inflows. Neither the country's own earnings, nor the level of liquid reserves are adequate to meet the obligations in full. Therefore, the challenge in the coming years is to take measures to improve Pakistan's debt indicators, and thus the capacity to service this debt.

Stagnant export and foreign exchange earnings have also played a part in the poor showing of Pakistan's debt indicators. Since FY95, there has been a 3.1 percent (annual average) increase in foreign exchange earnings, while external debt outstanding has risen by 11.5 percent. The most fundamental aspect of any debt reduction strategy will therefore have to focus on improving Pakistan's export revenues, home remittances and foreign investment (direct and portfolio). This, coupled with macroeconomic stability, will allow the country to exit the external debt-trap.

Special Section 3: Discrepancies in trade data between FBS and SBP

Export receipts and import payments data is collected and published by the Federal Bureau of Statistics (FBS) and State Bank of Pakistan (SBP). However, it has long been an issue of concern that the data recorded by each does not match. Ostensibly, this is because FBS records physical movement of goods across Pakistan's borders (customs proceeds), while SBP maintains exchange records from authorized dealers (ADs).

SBP's *Annual Report* shows a difference in numbers recorded for annual trade flows (as it uses FBS data for the trade account, which is more detailed), and SBP figures for the balance of payments. Consequently, SBP conducts an internal reconciliation in order to properly clarify the actual difference (see **Table 3.1 & 3.2**).

Table 3.1: Import Data Reconciliation

		US\$ mln		
<u>Imports</u>		FY98	FY99	FY00
<ul style="list-style-type: none"> • Since FBS imports are on c.i.f. basis, SBP subtracts approximately 8 percent as freight to standardize the value of imports. Similarly, freight is deducted from SBP imports payments to achieve a uniform f.o.b. valuation. • <i>Special transactions</i> refer to imports, under defense or other sensitive sectors, whose values and quantities are not specified. Hence, payments recorded in exchange records on 	A. FBS Imports (c.i.f.)	10,118	9,432	10,309
	Less: Freight & Insurance	921	844	801
	Add: Special transactions	640	783	471
	B. FBS (Adjusted)	9,837	9,371	9,979
	C. SBP (Adjusted)	10,301	9,613	9,598
	Import Payments	7,835	8,243	8,147
	(Exchange Record)			
	Less: Freight	627	660	652
	Add: a) Personal baggage			
	NRI, Duty free shops	70	32	48
	b)FEA	2,736	1,503	1,092
	c) Saudi Oil Facility	-	379	790
	d) Land borne, PIA, Capital equipment, etc.	287	116	173
	Difference (A - C)	-183	-181	711
Difference (B - C)	-464	-242	381	

Source: SBP Statistic Department

this count are added to FBS numbers.

- In the adjustments to SBP trade figures, *NRI* (non-repatriable investment) accounts for small investments made by expatriate Pakistanis transporting machinery into the country that has been bought and paid for abroad. *Duty-free shops* refers to small duty free imports by private individuals.
- *FEA* (foreign economic assistance) is project-specific and materializes as physical transfer of development or investment goods, such as machinery, rather than a direct inflow of foreign exchange. Consequently, it is added to the exchange record, to balance customs proceeds.
- Whilst oil imports under the *Saudi Oil Facility* are automatically recorded by Customs, they must be added to SBP figures, since under the bilateral agreement, payment is deferred.
- In the last entry, goods carried over Pakistan's borders from Afghanistan are classified as *land borne imports*, which do not directly enter the exchange record as cash payments made in Rupee terms do not go through ADs. Also recorded are spare parts and other imports made by Pakistan International Airlines (PIA) at foreign airports, for which payments must be made.

Exports

- In order to make export figures comparable, SBP figures are adjusted for freight and insurance, while FBS records are corrected for double counting (due to short shipments, etc).
- *Short shipments* refer to customs-registered export shipments that are not shipped out in the total amounts recorded, due to transport shortages, last-minute clearance issues, etc. In addition, FBS numbers must be adjusted for cancellations of registered export orders, as well as *ship stores*, which refers to export consignments that lie in warehouses after registration, due to unanticipated delays.
- *Outstanding bills* are added to SBP f.o.b. numbers, comprising all unrealized exports for which there exist customs records but no currency inflows to date. This category has fluctuated over the years, depending on the lag between actual shipment and receipt of payment. It also includes rolled over outstanding bills.
- *Crude oil* represents the percentage of oil extracted in Pakistan which, by agreement, belongs to the foreign investors drilling here and is transported

out of the country upon extraction becoming a physical ‘export’ for which no foreign exchange is forthcoming.

- *Land-borne exports* are similar to the entry in imports and refer to exports made to Afghanistan.
- *Export credit* refers to one-time bilateral trade credit offered by GOP to certain countries. Another such transient item is *samples*, which are the samples given to prospective buyers by domestic exporters.

Despite these adjustments to rationalize the differences in FBS and SBP figures, discrepancies still exist. The most conspicuous feature in the figures published, is the opposite change shown in import volume by FBS and SBP (see **Figure 3.1**). This is primarily on account of leads and lags. Discrepancies in exports arise due to differences in valuations and commodity classification between SBP and FBS. Agency charges not remitted through ADs further interfere with SBP’s tracking of export revenues. Efforts to harmonize classification differences between SBP & FBS are being made, while SBP is also trying to track agency charges more closely.

Table 3.2: Export Data Reconciliation

	US\$ mln		
	FY98	FY99	FY00
A. FBS Exports	8,628	7,779	8,569
Less: a) Short shipments	82	78	92
b) Cancellation	51	43	45
c) Ship Stores	1	1	1
B. FBS (Adjusted)	8,494	7,657	8,431
C. SBP (Adjusted)	8,434	7,528	8,170
Export Receipts	8,323	7,763	7,958
Less: Freight & Insurance	332	278	362
Add: a) Outstanding bills	384	-40	412
b) Crude oil	24	37	52
c) Land borne	26	46	109
d) Export credit	9	-	-
e) Samples	-	-	1
Difference (A - C)	194	251	399
Difference (B - C)	60	129	261

Source: SBP Statistics Department

Appendix I

Policy Measures for Agriculture Sector During July-September 2000

- The Agriculture Development Bank of Pakistan (ADBP) launched a micro credit scheme with Rs 500 million specifically for rural areas on 1st July 2000. The scheme has been designed to promote local skills by financing productive activities in the village. Loans of Rs 5,000 to Rs 25,000 would be extended to individuals and homogenous groups of five members.
- On 11th July 2000, Wapda revised the flat rate charges applicable on farmers in Balochistan from Rs 4000 to Rs 6,000 per month per tubewell. However, the arrears accumulated till 30th June 2000, will be payable at a rate of Rs 4,000 per month. The low incomes prevalent in rural Balochistan along with a low water table which requires the installation of high capacity motors, have led Wapda to continue a flat rate policy in the province.
- Pakistan Tobacco Board (PTB) urged companies to purchase surplus tobacco from growers, after meeting their target purchases. This decision was taken at a PTB meeting held on 2nd September 2000, in wake of disposing a surplus stock of 10.0 million kilograms of 'flue-cured' Virginia tobacco with growers in the Frontier province. Companies that have completed their targeted purchase shall buy the allocated surplus tobacco at a price not less than the minimum prices fixed by the Pakistan Tobacco Company for 2000.
- The Ministry of Commerce allowed the private sector to export raw cotton without getting a classification and grading certificate. This was done by making an amendment in the export policy and procedure order 2000 on 14th September 2000. The export of cotton can now be made on the basis of types as well as grades during the current crop season 2000-2001. However, exporters will have to mention the equivalent grade on shipping documents if they opt for exporting the cotton on type basis. The requirement of classification and grading certificate in such cases will be dispensed with, if the ginned cotton is packed in export packing at ginning stage. The decision has been taken to avoid unnecessary delays in export of cotton.

- On 21st September 2000, the government increased the support prices of paddy, raised the credit line to rice millers and involved Pakistan Agriculture Storage and Supplies Corporation (PASSCO) in buying rice from growers. The three-pronged policy has been adopted to avert a rice crisis. The price of super basmati (paddy per 40 kilograms) has been increased to Rs 460, basmati-385 to Rs 385 and Irri-6 to Rs 205 from Rs 425, Rs 350 and Rs 185, respectively.

Appendix II

Measures taken for Industrial Sector During July-September 2000-01

Following measures were taken during July-September 2000-01:

- The Central Board of Revenue (CBR) imposed a regulatory duty on the import of edible oils at a rate of 5 paisa per kg w.e.f 1st July 2000. The Board also levied a regulatory duty on the import of oilseeds for crushing at 10 percent of the customs duty collected. CBR also imposed a regulatory duty on steel bar at 15 percent ad valorem, calcium carbonate at 30 percent ad valorem, formic acid at 10 percent ad valorem, polyester chip yarn grade at 5 percent ad valorem, self adhesive tape of polypropylene (OPP) at 5 percent ad valorem, kraft paper sacks at 10 percent ad valorem and jute bags at 20 percent ad valorem.
- On 19th of August 2000, CBR announced exemption of sales tax on the local supplies of palm and soyabean oil.
- CBR also notified the imposition of a regulatory duty on the import of urea fertilizer at a rate of 10 percent ad valorem subject to the condition that the total C&F cost does not exceed US\$ 100 per tonne.
- On 1st July 2000, CBR decided to allow engineering goods exporters to import duty-free inputs.
- On 1st September 2000, The Economic Co-ordination Committee (ECC) decided to allow a further export of 150,000 tonnes of urea fertilizer in order to off-take the huge stocks of both private and public sectors.
- On 14th of July 2000, The ECC decided to further reduce customs duty to 10 percent on the import of sugar to maintain prices in the local market. Later, on 1st September 2000, the ECC decided to allow duty-free import of raw sugar for the current year in order to increase supply to stabilize prices.
- Custom duty on the import of pharmaceutical raw materials was also reduced from 15 to 10 percent w.e.f 17th June, 2000. On 10th August 2000,

some pharmaceutical raw and packing materials were also exempted from customs duty. However, it was specified that the exemption in excess of 10 percent ad valorem, granted shall not apply to the import of raw and packing materials for the purpose of manufacture by repackaging of drugs. This is effective from 17th June 2000.

- The Ministry of Commerce withdrew restrictions on the import of more than 5 years old used machinery through a SRO issued on 10th August 2000. However, import of used surgical equipment like dialysis machines, reverse osmosis equipment and other electro-medical equipment shall continue to be subject to the condition that the imported items are not more than 5 years old.
- To give a boost to the textile exports, the Ministry of Commerce, Industries and Production decided to allow duty-free import of ring spinning frames with effect from July 1, 2000.
- On 6th September 2000, CBR issued an SRO on the reduction of central excise duty (CED) on cement from Rs 1,400 to Rs 1,000 per tonne.
- The government allowed rebate in customs duty on the import of 46 raw materials to four export manufacturing industries w.e.f 17th September, 2000.

Appendix III

Fiscal Measures Taken During July-September 2000.

- With effect from 1st July 2000, CBR imposed a regulatory duty on import of edible oils at a rate of 5 paisa per kilogram. The Board has also levied a regulatory duty on the import of oilseeds for crushing at 10 percent of the customs duty collected. The rate of the regulatory duty on the export of raw hides and skins, wet blue tanned hides and skins would be at 20 percent ad valorem, and on the export of uncrushed bones (all sorts), steamed bones, bone meal, bone grist and shells at 5 percent ad valorem and crushed bone at 10 percent ad valorem.
- The Central Board of Revenue issued an SRO on 4th July 2000, which reduced the income tax liability for the salaried class earning more than Rs 300,000. With this change, the reduction in income tax liability has been increased from 10 to 20 percent for the income range of Rs 300,000 to Rs 500,000, and from 5 percent to 10 percent for the income range of Rs 0.5 to Rs 1.0 million. A new slab has also been introduced for those whose income is more than Rs 1.0 million with a reduction in tax liability of 5 percent.
- The CBR also announced a uniform tax credit of Rs 2,500 to the salaried class whose income is more than 50 percent of total income for assessment year FY02.
- Effective 1st July 2000, the CBR issued an SRO withdrawn the 5 percent extra sales tax on plastic product supplies.
- On 7th July, CBR issued different SROs to withdraw central excise duty from eleven services and imposing sales tax on the same at a rate of 15 percent with effect from 1st July 2000. These services include hotels, hotels in resort areas, marriage parties in hotels, clubs, advertisement on radio and television, stevedores, custom agents, ship chandlers, courier services, beauty parlors and dry cleaners.

- The CBR issued an SRO 469(1)/2000 to provide an exemption on the 5 percent withholding tax on the sale of Daewoo Racer cars between 22nd June to 22nd September 2000.
- On 15th July 2000, the Economic Coordination Committee (ECC) decided to further reduce custom duty on the imports of sugar to 10 percent to maintain prices in the local market. The committee also directed provincial governments to design long-term and short-term programs for sugarcane, and earmark 15 percent of sugarcane cess for crop development. Moreover, the ECC in a meeting on 1st September 2000 allowed the duty free import of sugar in order to stabilize domestic prices.
- The CBR withdrew 15 percent custom duty on the import of computer casing with built-in power supply with effect from 15th July 2000. The CBR also reduced custom duty on import of uninterrupted power supply (UPS) of a power rating exceeding 1.5 KVA from 35 percent to 10 percent.
- On 20th July 2000, the federal government announced that all gem and jewelry exporters have been exempted from the payment of 6 percent withholding tax on imports of equipment and raw materials used in the production of exportable items. The items exempted include: jewelry casting powder, moulding rubber, injection wax, jewelry casing machines and accessories, plating solution concentrate, bright and chrome lacquering solutions, steel balls and pins used for polishing, diamond cutting tools different sizes, alloys of silver, copper and incorporated items for mixing in 24-carat gold, mounts of gold, silver and platinum jewelry. The exemption has been allowed to promote the export of gems and jewelry made in Pakistan.
- The government announced a revised Tax Amnesty Scheme starting from 3rd August to 30th November 2000. According to this scheme, tax rates for different months are as follows: 11 percent for August, 12 percent for September, 13 percent for October and 14 percent for November. The facility for paying in installments on account of liquidity constraints has also been offered, by payment of 50 percent tax up-front,

and three equal installments with an additional tax of 1.5 percent per month on the residual amount.

- After a long period of strikes, the government and traders reached an agreement on 22nd August 2000. The salient features are given below:
 - Existing assesseees who have NTN numbers need not fill column 13 of the survey form which relates to stocks declaration.
 - There will not be any on-the-spot assessment of existing taxpayers for FY99.
 - In case of non-NTN holders, on-the-spot assessments will be made.
- On 1st September 2000, the Revenue Division of MOF issued an SRO exempting the import and sale of furnace oil from central excise duty.
- The President issued an ordinance called Tax (Amendment) Ordinance, 2000 to spread the net of sales tax to cement factories. Cement factories will pay sale tax while the government will reduce central excise duty by Rs 1400 per tonne to Rs 1000 per tonne. Moreover, cement factories in NWFP will enjoy the exemption till 30th June 2001.

Appendix IV

Money & Credit Measures

- Minimum cash margins on opening import letters of credit was withdrawn on 1st July 2000.
- Private limited companies, owned and controlled by the Government, are exempted from the requirement of obtaining personal guarantee of nominee directors (in addition to normal security) for advances from any banking company w.e.f. 21st July 2000.

Repo Transactions

- With a view to bring about operational improvements in money market transactions, strengthen the repurchase market and to ensure transparency, banks/NBFIs were required to enter into a Master Repo agreement with the counter party by 15th January 2000. In respect of Repo transactions, banks/NBFIs are required to ensure the following instructions w.e.f. 4th August 2000.
 - Any transaction involving government securities or other approved securities, either for repurchase or as collateral, will be accompanied by the same day movement of securities through SGLA or physical delivery of a security, as the case may be, along with full movement of funds.
 - To ensure proper monitoring of cash flows and interest rate risk, all REPO transactions will continue to be for a fixed maturity.
 - Banks/NBFIs will also continue to revalue their security holdings (both balance sheet as well as off-balance sheet items) on a weekly basis as advised earlier, and properly reflect days in their books. The rate used for valuation of government securities will be PKRV (Reuters Page) whereas in case of quoted securities, the closing rates of Karachi Stock Exchange will be used. However, in case of unquoted securities, where an active market does not exist, the securities will be shown at cost. Further any surplus/deficit arising on revaluation of securities will not be taken to profit and loss account, except when actually realized. Instead it

will be kept in a separate account called “Surplus/Deficit on Revaluation of Securities”, which will be shown below equity and with the following breakup (i) Govt. Securities (ii) Quoted Shares (iii) Other Securities may be given in notes to the financial statements.

- Moreover, all securities related transactions having a maturity/settlement date other than ready e.g. outright forward sale/purchase, forward leg(s) of a Repo agreement (both ready against forward and forward against forward) should also continue to be reflected in bank’s/NBFI’s account on the same date when the transaction was entered into.

Finalization Of Inspection Reports

- Keeping in view the growing number of appeals for refund/withdrawal of the penalties imposed on irregularities/violations of laws/regulations pointed out in its inspection reports, the SBP decided on 4th August, 2000 that henceforth discussions with banks/NBFIs on draft inspection reports will be reduced by the Banking Inspection Departments (BIDs), specifically recording the points contested by the banks/NBFIs and not agreed to by the BIDs along with reasons/justification for such disagreements. Any documentary evidence available with the bank/NBFI in connection with any irregularity/observation noted in the draft inspection report should, therefore, invariably be produced during the discussion. Evidence produced after finalization of the inspection reports will not be entertained.
- While the procedure regarding finalization of Inspection Reports has been streamlined, there was a need to rationalize the tendency of making repeated appeals to the State Bank for withdrawal/refund of penalty. With this objective in view, it has been decided to charge a fee equivalent to 10 percent of the amount contested subject to a minimum of Rs 5,000 and a maximum of Rs 50,000 for processing the request made by a bank/NBFI for withdrawal/refund of penalty. This will be payable up front by the bank/NBFI making the request. However, if any amount of penalty is determined as refundable due to any calculation mistake or other lapse on the part of State Bank the processing fee charged would stand refundable along with the amount of refund so determined to the concerned bank/NBFI. The

Banking Supervision Department will decide the appeals of banks and NBFIs independently, on merit of the case, giving due consideration to the views of the aggrieved party and without referring the matter to the inspection team or the Banking Inspection Department.

Export Finance Scheme

To mitigate genuine hardships of exporters, SBP announced the following revised instructions for the Export Finance Scheme 19th August 2000:

- Export finance on all types of yarn has been withdrawn with immediate effect. However, the refinance facility against loans already allowed under Part I shall be available till their respective maturities or repatriation, whichever is earlier. The exporters who have availed refinance under Part II of the Scheme, may hold refinance up to 31st December 2000 and submit export performance in respect of the half year to the respective office of the State Bank on or before 31st January 2001.
- The facility of export finance in respect of types of cloth whether bleached or un-bleached shall be allowed to the exporters at 10 percent for a period not exceeding 180 days as covered under the scheme. As such, there will be no distinction between bleached or un-bleached (grey) fabrics. Banks shall, however, be entitled to obtain refinance from the State Bank of Pakistan against export of these items at 8 percent on fulfillment of all prescribed conditions of the scheme. This facility will be available until 30th June 2001.
- All other categories of cloth/fabrics, such as dyed and printed cloth/fabrics shall be admissible for grant of export finance at 8 percent under the provisions of the scheme as amended from time to time.
- Refinance facility under the Export Finance Scheme was also allowed to “Brown Rice” and “Par boiled Rice” in retail packing of 1 – 25 kg w.e.f. 15th September 2000.
- The minimum rate of return to be paid by recipients of financing facilities from the State Bank for meeting temporary liquidity shortages and SBP 3-Day Repo facility against Government of Pakistan Market Treasury Bills and

Federal Investment Bonds has been enhanced from 11 to 12 percent on an annual basis w.e.f. 19th September 2000.

Open-Ended Guarantees

- Banks were permitted on 9th September, 2000 to seek prior approval of the State Bank of Pakistan for issuance of open-ended guarantees for purposes other than the followings:
 - Advance payments/bid bond guarantees - guarantees against performance of ongoing Government, Semi Government & Autonomous Bodies Contracts;
 - Guarantees requested by public utility companies such as gas, electricity etc. in respect of their customers to cover the utility supplied during the period of guarantee Court Guarantees;
 - Customs/Shipping guarantees; and
 - Revenue related Government Departments' guarantees.
- To further facilitate trade and industry, it has been decided to permit banks to issue open-ended guarantees on behalf of their clients by fully securing their interest through easily realizable securities (acceptable to them), instead of cash and liquid securities.

Appendix V

Policy Measures for External Sector

- The Pakistan Bankers Association imposed a 30 percent cash margin requirement on all import letters of credit (LCs), except for crude oil and POL products on 5th October, 2000. However, with the strengthening of Rupee parity against the Dollar, banks reduced the LC margin to 25 percent and exempted edible oils and DAP fertilizers with effect from 24th October, 2000. Margin requirements were further reduced to 15 percent on 6th November, 2000 and finally removed from 14th November, 2000.
- The Central Board of Revenue (CBR) reduced custom duty on import of Phthalic anhydride from 35 to 25 percent ad valorem on 9th September, 2000. The revised duty rate would be applicable, if imported by recognized manufactures of chemical resin and processed chemicals in such quantities as determined by Chief (Survey), CBR. CBR also reduced the rate of custom duty on import of Dibutyle orthophthalates, ISO Phthalic acid and Fortified Rosin to 25 percent ad valorem. The rate of duty on the import of Gum Rosin was also reduced to 15 percent.
- A Textile Board was set up by the Federal Government in the Ministry of Industries and Production to facilitate implementation of recommendations contained in Textile Vision 2005, which is aimed at preparing the country for a quota-free market. The objectives of the board are to ensure production of contamination-free cotton and arrange project financing for small and medium entrepreneurs in the high value added textile sectors. The Board will take measures to make the textile products internationally competitive in respect of prices and quality.
- The government exempted 156 computer parts from duty in order to promote information technology.
- On 14th September 2000 ,the Ministry of Commerce allowed the private sector to export raw cotton without getting classification and grading certificate if the ginned cotton is packed in export packing at the ginning stage.

- The Central Board of Revenue (CBR) on 14th September, 2000 announced a 0.75 percent income tax on the export of rice marketed under brand name (up to 5 kilogram packs); canned and bottled fish including sea food, other food items and precious and semiprecious stones whether cut, un-cut or polished. Earlier, CBR was charging 0.5 percent tax on the exports of these items. The CBR has also notified tax at 0.75 percent of foreign exchange proceeds on account of export of fish and fisheries products packed in retail packs of 500 grams to 2-kilogram.
- The State Bank of Pakistan allowed the export refinance facility for exports of brown rice and par boiled rice in packing of 1-25 Kg with effect from 15th September 2000.
- On 26th September 2000, State Bank of Pakistan (SBP) set a maximum limit of 500,000 tonnes for raw sugar imports of a specific grade up to March 2001. The raw sugar can only be imported in the grade above 600 ICUMSA (International Commission for Uniform Method of Sugar Analysis) as part of the government's latest policy to encourage duty free imports of the commodity. LC (letter of credit) registration will be stopped once cumulative total reaches 500,000 tonnes.
- On 9th October, 2000, the Central Board of Revenue (CBR) announced exemption of customs duty on the import of 500,000 tonnes of raw sugar in bulk to stabilize consumer prices of sugar, and increase its supply in the local market. Earlier, CBR was charging duty at a rate of 15 percent on the import of raw sugar.
- The small indenting houses/agents whose income does not exceed Rs 5 million per annum were exempted with effect from 2nd October, 2000 from submitting half yearly statements of their commission earnings in foreign exchange to the State Bank of Pakistan required under the instructions contained in paragraph 2(i) Chapter XXI of the Foreign Exchange Manual (7th Edition, 1992).
- Airlines/Shipping Companies/Travel Agents were allowed to sell tickets to Pakistan nationals to travel by Foreign Airlines/Shipping Companies without any annual quota w.e.f. 13th October, 2000.
- Authorized Dealers were allowed on 24th October, 2000 to certify form "E" for export of "Hand Knotted Carpets" for a tenure of up to 270 days usance

instead of 180 days usance, provided export proceeds are repatriated within a period of 285 days.

- Upper limit of retaining 25 percent export earning in Special Foreign Currency Accounts for payment of commission to overseas buyers and to meet other expenses such as promotional publicity, import of hardware/software and foreign consultant's fee etc., allowed earlier to Software Houses/Companies was enhanced to 35 percent with effect from 17th November 2000.
- In conformity of Import Trade and Procedures Order 2000-2001 issued by the Ministry of Commerce vide their Notification No. SRO. 489(1)/2000 dated the 17th July 2000, the requirement of opening Letter of Credit for imports before shipment was removed on 20th November 2000. Thus, shipment of goods before opening of import letter of credit will no more construe to be a violation of the Import Trade and Procedure Order 2000.

Table 1: Area, Production and Yield of Agricultural Crops

Crops	FY00			FY01 (Targets)			FY01 (Prel. estimates)		
	Area	Production	Yield	Area	Production	Yield	Area	Production	Yield
Cotton	2,983	11.24	641	2,930	10.70	621	2,973	10.2*	584
Sugarcane	1,010	46,333	45,883	1,000	51,647	51,647	925	41,800	45,189
Rice	2,515	5,156	2,050	2,411	5,102	2,116	2,314	4,520	1,953
Maize	894	1,351	1,512	900	1,501	1,668	973	1,796	1,845
Mung	203	95	468	200	100	500	211	99	468
Mash	43	24	547	66	33	526	46	24	511
Chillies	87	116	1,330	87	146	1,684	93	196	2,110
Wheat	8,443	21,094	2,498	8,430	20,000	2,372	--	--	--
Gram	972	565	581	1,086	716	659	--	--	--
Potato	111	1,868	16,909	113	1,950	17,257	--	--	--
Onion	110	1,648	15,100	99	1,430	14,444	--	--	--

Area = 000 Hectares
 Production = 000 Tonnes
 Yield = Kgs /Hectares

Sources: i) Ministry of Food, Agri. & Livestocks (Economic wing)
 ii) Federal Committee on Agriculture.
 * : Latest estimates by Cotton Crop Assessment Committee

Notes: Figures of cotton production and target are in million bales.

Table 2: Growth Rates of Select Large-scale Manufacturing Items

Items	Units	Weights	Production During Q1		Items	Units	Weights	Production During Q1	
			FY00	FY01				FY00	FY01
Cotton Yarn	Tonnes	8.850	401,773	432,371	Electric Transformers	Nos	0.577	3,061	2,578
Cotton Cloth	000 sq. m	4.881	100,347	120,661	Storage Batteries	-do-	0.451	353,199	383,804
Cotton Ginned	000 Tonnes	3.893	446	442	Trucks	-do-	0.698	183	195
Sugar	Tonnes	8.630	-	-	Tractors	-do-	0.593	9,834	5,373
Vegetable Ghee	-do-	3.004	205,035	192,186	LCVs	-do-	0.369	678	1,656
Cigarettes	MIn Nos	2.505	12,691	14,266	Cars & Jeeps	-do-	0.309	7,185	8,578
Tea	Tonnes	1.785	12,129	11,213	Motor Cycles	-do-	0.249	20,146	25,242
Beverages	000 Bottles	0.964	651,263	632,296	Buses	-do-	0.130	410	421
Cooking Oil	Tonnes	0.448	21,134	24,594	Caustic soda	Tonnes	0.621	35,058	36,474
Petroleum Products	000 Litres	7.824	1,688,354	2,044,294	Soda Ash	-do-	0.320	62,909	53,516
Nitrogenous Fertilizer	N.Tonnes	5.441	491,754	530,383	Leather Footwear	000 Pairs	0.994	5,185	5,203
Phosphatic	-do-	0.430	22,923	69,270	Upper Leather	000 Sq.m	0.852	2,111	2,604
Tablets	000 Nos	2.705	2,951,507	2,818,984	Cement	Tonnes	1.846	2,613	2,213
Syrup	000 Litres	1.602	8,272	8,072	Glass Sheets	000 Sq.m	0.069	1,556	1,403
Pig Iron	Tonnes	1.477	257,007	281,918	Paper & Board	Tonnes	1.359	91,276	124,067
Coke	-do-	1.319	143,066	178,871	Bicycles	Nos	0.348	118,629	149,025
Billets	-do-	0.311	79,040	103,808	Sewing machines	-do-	0.052	7,608	5,692
H.R/Coils and Plates	-do-	0.088	110,947	83,641	Power Looms	-do-	0.051	207	85
C.R coils/Plates/Sheets	-do-	0.013	60,348	45,627	Motor Tyres	000 Nos	0.261	224	179

Source: Federal Bureau of Statistics

Table 3: Federal Tax Collections during Q1-FY01

(Rs mln)

Heads	Targets For		Tax Collection in Q1			As Percent of		Percentage Change over FY00
	FY01	Q1*	FY99	FY00	FY01	FY01	Q1*	
Direct Taxes	137,500	24,570	19,523	21,313	21,642	15.7	88.1	1.5
Indirect Taxes	298,200	62,100	39,377	51,375	58,300	19.6	93.9	13.5
1. Sales Tax	172,600	32,020	11,374	21,391	31,491	18.2	98.3	47.2
2. Central Excise	52,600	11,810	13,260	12,878	12,742	24.2	107.9	-1.1
3. Customs	73,000	18,270	14,743	17,106	14,067	19.3	77.0	-17.8
Total Collections	435,700	86,670	58,900	72,688	79,942	18.3	92.2	10.0

* Targets for Q1 have been worked out by SBP on the basis of seasonal factors.

Source: Central Board of Revenue

Table 4: Monetary Survey - Cumulative Flows

(Rs mln)

Description	Credit Plan FY01	Q1-FY99	Q1-FY00	Q1-FY01
I. Government Sector Borrowing (net) (A+B+C+D)	-2,200	16,700	5,463	23,691
Gross budgetary borrowing	29,800	45,139	26,328	49,676
Special account debt repayment	-32,000	-22,847	-15,446	-13,870
A) Net budgetary borrowing	-2,200	22,292	10,882	35,806
i) From State Bank of Pakistan		9,629	19,143	1,524
ii) From Scheduled Banks		12,663	-8,261	34,282
B) Commodity operations (commercial banks)		-6,152	-4,252	-11,554
C) Net effect zakat funds/privatization proceeds etc.		338	-204	-730
D) Others (Credit to NHA & CAA by commercial banks)		222	-963	169
II. Non-government Sector (A+B)	89,200	-21,879	-23,865	-934
A) WAPDA, KESC, OGDC, PTC, SSGC, SNGPL & PR	4,000	-4,229	-9,384	-9,762
B) Net credit to private sector & PSEs (Credit to private sector PSEs)	85,200	-17,650	-14,481	8,828
a) Commercial banks	94,400	-20,896	-16,615	-2,120
i) Public corporations other than IIA		1,878	3,208	2,359
ii) Private sector (Export finance)	(25,000)	(3,992)	-(3,716)	(1,688)
b) Specialised Banks	2,400	3,533	4,457	4,678
c) Other financial Institutions	3,000	-287	611	8,062
d) PSEs special account-debt repayment with SBP	-14,600	0	-2,934	-1,792
III. Other items (net)	0	21,067	5,094	-6,329
IV. Net domestic assets (I+II+III)	87,000	15,888	-13,308	16,428
V. Foreign assets of the banking system (net)	60,000	-13,824	-1,579	-19,861
i) State Bank of Pakistan		-20,965	-9,555	-19,166
ii) Scheduled Banks		7,141	7,976	-695
VI. Monetary assets (IV+V)	147,000	2,064	-14,887	-3,433

Table 5: Private Sector Credit - Cumulative Flows

(Rs mln)

	Q1-FY99	Q1-FY00	Q1-FY01
Manufacturing	-15,500	-13,030	-12,809
a) Locally manufactured machinery (LMM)	-239	-214	-173
b) Manufacturing	-15,261	-12,816	-12,636
i) For fixed investment	4,264	-2,800	-1,381
ii) For working capital	-19,525	-10,016	-11,255
Automobile	382	-2,568	-503
Cement	-318	657	-1,012
Fertilizer	263	-1,670	-660
Sugar	-5,022	-4,502	-748
Textiles	-7,958	-1,266	-7,379
Others	-6,872	-667	-953

Table 6a: Discounting of Government Securities

(Rs mln)

Month	# of visits at window (days)			Amount			Average discounting per visit		
	FY01	FY00	FY99	FY01	FY00	FY99	FY01	FY00	FY99
July	3	15	10	29,776	33,585	17,460	9,925	2,239	1,746
August	8	8	5	44,034	28,152	6,945	5,504	3,519	1,389
September	9	3	2	64,924	7,806	900	7,214	2,602	450
Q 1	20	26	17	138,734	69,543	25,305	6,937	2,675	1,489

Table 6b: Open Market Operations

Month	Absorption			Injections		
	FY01	FY00	FY99	FY01	FY00	FY99
July	7,700	-	10,150	-	4,750	-
August	17,150	21,550	40,950	-	-	-
September	13,900	28,180	64,420	-	-	-
Q 1	38,750	49,730	115,520	-	4,750	-

Table 7: Components of M2 - Stocks

(Rs mln)

Period	CiC	DD	TD	ODwSBP	RFC	M2
Jun-98	272,922	200,997	447,433	6,412	278,556	1,206,320
Jul-98	281,807	224,404	448,855	6,461	239,369	1,200,896
Aug-98	272,546	241,924	458,732	6,519	214,084	1,193,805
Sep-98	269,594	266,403	461,761	7,025	203,601	1,208,384
Oct-98	275,621	261,955	463,444	6,558	197,614	1,205,192
Nov-98	290,743	273,882	470,674	6,704	189,327	1,231,330
Dec-98	301,146	312,057	462,353	8,054	178,911	1,262,521
Jan-99	315,174	282,082	472,795	7,492	167,063	1,244,606
Feb-99	298,649	287,883	482,779	7,640	160,314	1,237,265
Mar-99	314,763	295,181	479,561	7,951	150,938	1,248,394
Apr-99	299,061	301,580	482,531	7,661	134,270	1,225,103
May-99	296,177	312,148	499,480	7,653	129,751	1,245,209
Jun-99	287,716	349,115	516,586	6,212	120,917	1,280,546
Jul-99	290,230	343,281	513,448	6,667	112,509	1,266,135
Aug-99	289,049	348,824	511,610	6,700	105,607	1,261,790
Sep-99	287,561	352,278	520,527	6,597	98,697	1,265,660
Oct-99	307,608	353,038	511,532	6,792	91,068	1,270,038
Nov-99	329,160	353,692	505,704	6,775	86,891	1,282,222
Dec-99	341,024	387,267	497,669	6,427	84,602	1,316,989
Jan-00	346,391	377,864	503,164	6,371	81,442	1,315,232
Feb-00	341,394	378,940	515,987	6,383	78,751	1,321,455
Mar-00	342,018	381,999	514,697	6,391	75,928	1,321,033
Apr-00	333,559	344,745	523,238	6,387	114,858	1,322,787
May-00	351,096	354,081	540,001	6,257	112,112	1,363,547
Jun-00	355,677	375,397	549,124	7,959	112,475	1,400,632
Jul-00	351,194	354,988	552,865	8,444	114,813	1,382,303
Aug-00	342,418	343,819	570,782	10,204	118,480	1,385,703
Sep-00	339,681	340,117	585,495	10,597	121,308	1,397,199

Table 8: Inflation Trends

(Percent)

Indices	Quarterly Inflation		Annualized Inflation					
	Cumulative July to September		Month to Month Basis		Quarter to Quarter Basis		12-Month Moving Average Ending*	
	1999	2000	Sep-99	Sep-00	Sep-99	Sep-00	Sep-99	Sep-00
CPI	1.5	1.5	3.4	5.1	3.3	4.8	4.9	4.0
WPI	0.8	2.2	2.9	4.9	2.9	4.0	5.3	2.1
SPI	1.0	2.5	3.3	4.9	3.1	4.2	5.4	2.1

* Percent change over preceding 12-month average

Table 9: Balance of Payments - (July-September)

(US\$ mln)

Items	FY99	FY00	FY01	Δ Q1-FY01/Q1-FY00	
				Absolute	Percent
1. Trade Balance	-310	-466	-476	-10	-2.1
Exports(fob)	1855	1798	2191	393	21.9
Imports (fob)	2165	2264	2667	403	17.8
2. Services (Net)	-770	-658	-850	-192	-29.2
Receipts	316	392	383	-9	-2.3
Payments	1086	1050	1233	183	17.4
3. Current Transfers (Net)	434	656	710	54	8.2
a) Private Transfers -net	411	625	702	77	12.3
i) Workers' Remittances	301	215	366	151	70.2
ii) FCA (Residents)	63	141	71	-70	-49.6
iii) Outright Purchases	0	240	227	-13	-5.4
b) Official Transfers	23	31	8	-23	-74.2
4. Current Account Balance (1+2+3)	-646	-468	-616	-148	-31.6
5. Financing	646	468	616	148	31.6
I. Capital Account(net)	-898	-1096	-296	800	73.0
a) Foreign Investment	25	118	19	-99	-83.9
i) Direct investment in Pakistan(Net)	107	149	36	-113	-75.8
ii) Portfolio (excl. public securities)	-82	-31	-17	14	45.2
b) Foreign long-term loans/credit (Net)	-259	-277	-219	58	20.9
i) Disbursements	449	461	429	-32	-6.9
Project Aid	268	306	180	-126	-41.2
Food Aid	50	0	0		
Non Food	90	146	215	69	47.3
Others	41	9	34	25	277.8
ii) Amortization	708	738	648	-90	-12.2
Official	549	549	505	-44	-8.0
Others	159	189	143	-46	-24.3
c) Official Assistance (Net)	-529	-362	176	538	51.4
d) FCA (Non-residents)	-384	-564	-65	499	88.5
e) Others	249	-11	-207	-196	-1781.8
II. Changes in Reserves (-Inc/+Dec)	148	123	293	170	138.2
Assets	182	173	366	193	111.6
SDRs	1	0	-1	-1	
Forex (State Bank of Pakistan)	268	173	321	148	85.5
Forex (Commercial Banks)	-87	0	46	46	
Liabilities	-34	-50	-73	-23	-46.0
Use of Fund Credit	-34	-50	-73	-23	-46.0
Purchases/drawings	0	0	0		
Repurchases	-34	-50	-73	-23	-46.0
III. Errors & Omissions	304	320	18	-302	-94.4
IV. Exceptional financing	1092	1121	601	-520	-46.4
SBP reserves	664	1569	1033	-536	-34.2
SBP reserves (excluding FE 25)	664	1354	594	-760	-56.1

Table 10: Region-Wise Worker's Remittances

Countries	(US \$ mln)			Change in Q1-FY00 over Q1-FY01	
	Q1-FY99	Q1-FY00	Q1-FY01	Absolute	Percent
Gulf Region:	<u>159.1</u>	<u>144.9</u>	<u>275.4</u>	<u>130.5</u>	<u>90.1</u>
Bahrain	8.6	7.3	7.3	0.0	-0.4
Kuwait	9.4	17.1	70.4	53.3	311.9
Qatar	3.8	3.2	4.4	1.2	36.9
Saudi Arabia	90.2	77.8	102.2	24.4	31.4
Sultanat-e-Oman	12.6	11.8	10.7	-1.1	-9.2
U.A.E.	34.5	27.6	80.3	52.7	190.6
Other than Gulf Region:	<u>64.8</u>	<u>56.7</u>	<u>75.7</u>	<u>18.9</u>	<u>33.4</u>
Canada	0.9	1.2	1.0	-0.2	-12.7
Germany	3.4	2.9	2.8	0.0	-1.7
Japan	0.4	0.3	0.6	0.3	87.9
Norway	1.4	1.3	1.8	0.5	42.9
U.K.	19.4	17.9	20.7	2.8	15.8
U.S.A.	22.8	18.8	29.0	10.1	53.9
Others	16.6	14.3	19.7	5.4	37.3
TOTAL	223.9	201.0	351.0	150.0	74.6
Encashment FEBCs & FCBCs	77.0	14.1	14.8	0.6	4.3
TOTAL (including FEBC & FCBCs)	300.8	215.1	365.8	150.6	70.0

Table 11: Major Exports - (July-September)

(Value: US\$ mln ; Unit Value: US\$)

Commodities	FY00		FY01		Change in Q1-FY01 over Q1-FY00			
	Val.	Unit Val.	Val.	Unit Val.	Abs.	Percent		
					Val.	Qty.	Val.	Unit Val.
A. Primary Commodities	202.1		270.1		67.9			
1 Rice	91.4	4,433.2	110.3	5,431.1	18.9	-1.5	20.6	22.5
2 Raw Cotton	-	---	26.0	975.8	26.0	--	--	--
3 Raw Wool (Excluding Wool Tops)	0.4	1,302.0	0.4	1,251.1	0.0	-6.1	-9.8	-3.9
4 Fish and Fish Preparations	32.6	1,579.6	42.7	2,100.3	10.1	-1.5	30.9	33.0
5 Leather	36.6	14.0	50.4	12.9	13.8	50.1	37.7	-8.3
6 Guar and Guar Products	8.4	1,725.8	4.2	1,229.7	-4.2	-29.7	-49.9	-28.7
7 Fruits	16.1	316.9	24.8	409.3	8.7	19.2	54.0	29.2
8 Vegetables	12.2	283.3	6.8	196.7	-5.4	-19.7	-44.2	-30.6
9 Crude Animal Material	4.2	634.5	4.2	546.8	0.0	17.0	0.8	-13.8
10 Oil Seeds & Nuts etc.	0.3	415.9	0.4	434.6	0.1	29.4	35.2	4.5
B. Textile Manufactures	1,326.4		1,436.9		110.5			
11 Cotton Yarn	236.6	2,194.9	254.2	2,021.9	17.7	16.7	7.5	-7.9
12 Cotton Fabrics (Woven)	282.4	0.8	255.2	0.6	-27.2	6.6	-9.6	-15.2
13 Hosiery (Knitwear)	211.7	24.4	251.1	24.5	39.4	18.3	18.6	0.3
14 Bed Wear	178.1	5,398.5	177.9	5,047.8	-0.2	6.8	-0.1	-6.5
15 Towels	30.7	3,650.4	51.9	3,585.3	21.2	72.1	69.0	-1.8
16 Cotton Bags and Sacks	4.9	4,457.7	4.5	4,239.1	-0.5	-5.1	-9.8	-4.9
17 Readymade Garments	181.5	22.5	214.7	26.7	33.3	-0.2	18.3	18.6
18 Tarpaulin & Other Canvas Goods	12.4	2,368.9	8.5	2,336.3	-3.9	-30.8	-31.8	-1.4
19 Tule, Lace Embroidery etc.	5.1	---	1.8	---	-3.2	--	-63.9	--
20 Synthetic Textiles	104.1	0.7	134.0	0.7	29.9	46.2	28.7	-11.9
21 Other Textile Made up	77.1	---	82.1	---	4.9	--	6.4	--
22 Waste Material of Textile Fibres/Fabrics	1.8	757.9	1.1	501.6	-0.7	-9.4	-40.0	-33.8
C. Other Manufactures	276.6		357.4		80.8			
23 Carpets, Carpeting Rugs & Mats	50.7	53.2	60.6	46.3	9.9	37.3	19.5	-13.0
24 Petroleum and Petroleum Products	16.7	150.6	40.3	244.0	23.6	48.7	141.0	62.0
25 Sports Goods	62.8	---	61.5	---	-1.3	--	-2.1	--
26 Leather Manufactures	82.0	---	112.6	---	30.6	--	37.3	--
27 Surgical and Medical Instruments	27.8	1.3	28.5	1.4	0.8	-1.7	2.7	4.5
28 Cutlery	5.1	48.0	6.7	32.6	1.6	94.5	31.9	-32.2
29 Onyx Manufactured	1.2	1,627.5	3.7	1,879.4	2.5	173.6	216.0	15.5
30 Chemicals and Pharmaceuticals	16.9	---	37.7	---	20.8	--	122.8	--
31 Molasses	10.8	22.4	5.8	30.0	-5.1	-60.2	-46.8	33.7
32 Sugar	2.6	310.9	-	---	--	--	--	--
D. Others	135.8	---	160.2	---	24.5	---	18.0	---
Total Exports:	1,941.0		2,224.7		-283.7		14.6	
<i>excl.Major Food Items and Raw Cotton</i>	<i>1,766.5</i>		<i>2,003.7</i>					
<i>excl.Major Food Items, Raw Cotton and Cotton Yarn</i>	<i>1,530.0</i>		<i>1,749.5</i>					

Source: Federal Bureau of Statistics.

Table 12: Major Imports - (July-September)

(Value : US\$ mln ; Unit Value: US\$)

Commodities	FY00		FY01		Δ in Q1-FY01 over Q1-FY00			
	Val.	Unit Val.	Val.	Unit Val.	Abs.	Percent		
					Val.	Qty.	Val.	Unit Val.
A. Food Group	243.1	---	296.0	---	52.9	---	21.8	---
1. Milk & Cream	10.4	1,695.2	6.6	1,663.2	-3.8	-35.1	-36.3	-1.9
2. Wheat Unmilled	42.9	140.3	9.4	203.2	-33.5	-84.8	-78.1	44.8
3. Dry Fruits	9.4	1,508.7	8.6	549.8	-0.7	152.8	-7.9	-63.6
4. Tea	42.6	1,806.3	50.1	1,953.8	7.5	8.7	17.6	8.2
5. Spices	5.2	1,256.5	3.5	842.2	-1.7	0.9	-32.4	-33.0
6. Edible Oil	115.8	428.7	94.8	328.4	-21.0	6.9	-18.1	-23.4
<i>Soyabean</i>	29.5	460.4	13.6	349.6	-15.8	-39.0	-53.7	-24.1
<i>Palm Oil</i>	86.3	418.8	81.1	325.1	-5.2	21.1	-6.0	-22.4
7. Sugar	0.4	343.0	89.7	252.6	89.3	33,843.6	24,898.5	-26.4
8. Pulses	16.5	327.3	33.3	331.6	16.8	98.9	101.5	1.3
B. Machinery Group	495.4	---	459.3	---	-36.0	---	-7.3	---
1. Power Generating Machinery	28.9	---	39.3	---	10.4	---	36.1	---
2. Office Machinery	35.6	---	62.1	---	26.6	---	74.6	---
3. Textile Machinery	34.4	---	85.5	---	51.2	---	148.9	---
4. Construction & Mining Machinery	23.0	---	15.9	---	-7.1	---	-31.0	---
5. Electrical Machinery & Apparatus	35.1	---	35.5	---	0.4	---	1.1	---
6. Railway Vehicles*	31.6	---	1.9	---	---	---	---	---
7. Road Motor Vehicles	69.5	---	80.7	---	11.2	---	16.1	---
8. Aircraft, Ships and Boats	56.0	---	20.4	---	-35.6	---	-63.6	---
9. Agricultural Machinery & Implements	12.1	---	5.1	---	-7.0	---	-57.9	---
10. Other Machinery	169.2	---	113.0	---	-56.2	---	-33.2	---
C. Petroleum Group	542.3	139.8	998.9	218.4	456.6	17.9	84.2	56.3
1. Petroleum Products	393.9	136.2	617.6	221.7	223.7	-3.7	56.8	62.8
2. Petroleum Crude	148.4	150.3	381.3	213.4	233.0	81.0	157.0	42.0
D. Textile Group	41.7	---	33.5	---	-8.3	---	-19.8	---
1. Synthetic Fibre	22.7	1,142.6	17.0	1,285.4	-5.7	-33.5	-25.2	12.5
2. Synthetic & Artificial Silk Yarn	10.5	2,087.3	10.5	1,943.0	0.1	8.3	0.9	-6.9
3. Worn Clothing	8.5	370.3	5.9	303.8	-2.6	-15.3	-30.5	-18.0
E. Group	468.2	---	460.4	---	-7.8	---	-1.7	---
1. Fertilizer	29.1	146.8	27.0	161.0	-2.0	-15.2	-7.0	9.7
2. Insecticides	53.6	3,821.6	30.2	2,893.2	-23.4	-25.7	-43.7	-24.3
3. Plastic Materials	81.8	795.0	92.0	839.7	10.3	6.6	12.6	5.6
4. Medicinal Products	67.8	21,497.1	60.6	23,197.5	-7.2	-17.2	-10.6	7.9
5. Others	236.0	---	250.6	---	14.6	---	6.2	---
F. Metal Group	101.7	---	79.4	---	-22.3	---	-21.9	---
1. Iron and Steel Scrap	3.9	134.3	6.5	118.1	2.7	92.2	69.0	-12.1
2. Iron and Steel	88.1	342.9	64.3	323.6	-23.8	-22.7	-27.0	-5.6
3. Aluminium wrought & Worked	9.8	---	8.6	---	-1.2	---	-12.2	---
G. Miscellaneous Group	65.5	---	62.3	---	-3.2	---	-4.9	---
1. Rubber Crude	7.9	653.0	9.8	679.6	1.8	18.2	23.0	4.1
2. Rubber Tyres & Tubes	19.9	22.6	16.8	24.4	-3.0	-21.4	-15.2	7.9
3. Wood & Cork	3.7	---	3.6	---	-0.1	---	-2.2	---
4. Jute	4.8	260.4	6.6	269.1	1.8	33.3	37.8	3.3
5. Paper and Paper Board & Manufactures	29.2	662.6	25.5	755.8	-3.7	-23.5	-12.7	14.1
H. Others	469.8	---	340.5	---	-129.3	---	-27.5	---
Total Imports:	2,427.7	---	2,730.4	---	302.7	---	12.5	---
<i>excl. POL groups</i>	1,885.4	---	1,731.5	---	---	---	---	---
<i>excl. Food group</i>	2,184.6	---	2,434.4	---	---	---	---	---
<i>excl. Food and POL groups</i>	1,642.3	---	1,435.4	---	---	---	---	---

Table 13: Capital Account - (July - September)

(US\$ mln)

Items	FY99			FY00			FY01		
	Cr.	Dr.	Net Credit	Cr.	Dr.	Net Credit	Cr.	Dr.	Net Credit
1. Direct investment abroad		23	-23			0			0
2. Direct investment in Pakistan	130		130	149		149	36		36
3. Portfolio investment		133	-133		12	-12		9	-9
4. Other long-term capital-official sector	637	549	88	452	566	-114	395	777	-382
4.1. Assets			0			0			0
4.2. Loans drawn	408	549	-141	452	549	-97	395	505	-110
4.3. Loans extended			0			0			0
4.4. Other Liabilities	229		229		17	-17		272	-272
5. Other long-term capital-Deposit money banks	0	0	0	1	0	1	0	1	-1
5.1. Assets			0			0			0
5.2. Loans			0			0			0
5.3. Other Liabilities			0	1		1		1	-1
6. Other long-term capital-Other Sectors	41	162	-121	44	189	-145	165	143	22
6.1. Assets			0			0			0
6.2. Loans	41	159	-118	9	189	-180	34	143	-109
6.3. Other Liabilities		3	-3	35		35	131		131
7. Other short-term capital-Official Sector	48	541	-493	71	457	-386	248	89	159
7.1. Assets		15	-15		5	-5		11	-11
7.2. Loans	48	378	-330	71	152	-81	134	78	56
7.3. Other Liabilities		148	-148		300	-300	114		114
8. Other short-term capital-Deposit Money Bank	112	153	-41	31	317	-286	77	44	33
8.1. Assets	56		56		25	-25	77		77
8.2. Bilateral balances-assets			0			0			0
8.3. Bilateral balances-liabilities			0			0			0
8.4. Liabilities under NR A/cs	56		56	31		31		1	-1
8.5. Other Liabilities		153	-153		292	-292		43	-43
9. Other short-term capital - Other Sectors	0	305	-305	0	303	-303	0	154	-154
9.1. Assets		78	-78		38	-38		135	-135
9.2. Loans			0			0			0
9.3. Other Liabilities		227	-227		265	-265		19	-19
Capital Account	968	1,866	-898	748	1,844	-1,096	921	1,217	-296

