5

Balance of Payments

Balance of payments improved in the first half of FY24, mainly reflecting the impact of subdued domestic demand, ease in global commodity prices, and successful negotiation of a nine-month SBA with the IMF. The current account deficit contracted during H1-FY24 compared to the same period last year, with higher exports and continued decline in imports offsetting the drop in remittances. However, interest payments on external debt and repatriation of profits and dividends increased sharply. Supported by the IMF's SBA and loans from other creditors, the financial account saw a net inflow during H1-FY24. As a result, gross foreign exchange reserves increased to $8.2 billion in December 2023 from $4.4 billion in June 2023, while PKR appreciated as compared to end-June 2023.

5 Balance of Payments

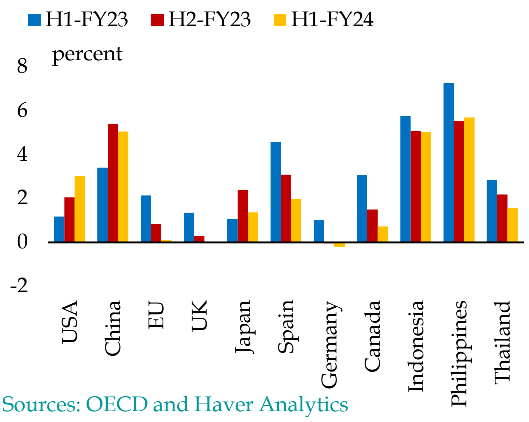
5.1 Global Developments

Global growth is estimated at 3.1 percent for 2023, lower than 3.5 percent in 2022, as well as the average of 3.8 percent during 2000 to 2019.[1] Tighter financial conditions, withdrawal of fiscal support and slower productivity growth mainly explain this slowdown in global growth. Moreover, multiple shocks stemming from geo-political conflicts and climate change also affected global economic activity.

Besides losing some steam, the global growth in 2023 was also uneven across regions. United States and several major EMDEs, including China, continued steady recovery with stronger than expected growth during Jul-Dec 2023. However, protracted effects of high energy prices due to geo-political tensions, and weaker consumer and business sentiments posed challenges for the euro area **(Figure 5.1)**. Low-income developing countries also witnessed large output losses amid higher borrowing costs.

This, combined with the ongoing trade tensions and geo-economic fragmentation, weighed heavily on global trade. The growth in global trade volume decelerated considerably to 0.4 percent in 2023 from 5.2 percent in 2022.[2] Global trade tensions are also reflected in Global Trade Alert data, which shows that different countries imposed more than 3,000 new restrictions on trade in 2022 and 2023, in comparison to about 1,100 in 2019.

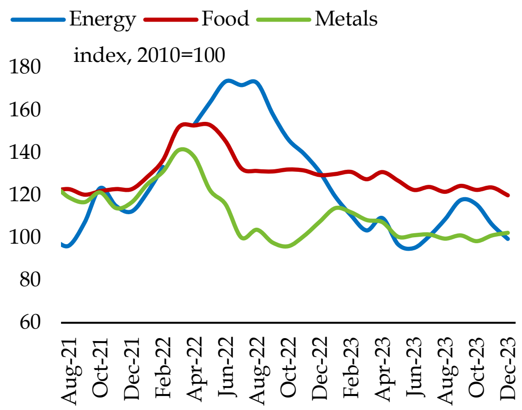
Average Real GDP Growth in Major Economies **Figure 5.1**



Sources: OECD and Haver Analytics

In line with the slower growth in economic activity and the trade volumes, international commodity prices mostly maintained a downtrend during 2023 **(Figure 5.2)**. Resultantly, global inflation receded, falling relatively sharply in EMDEs. This provided central banks in EMDEs some room to transition to ease monetary policy stance.[3] The central banks in advanced economies, on the other hand, are still grappling with the above target inflation.

Global Commodity Prices **Figure 5.2**



Source: World Bank

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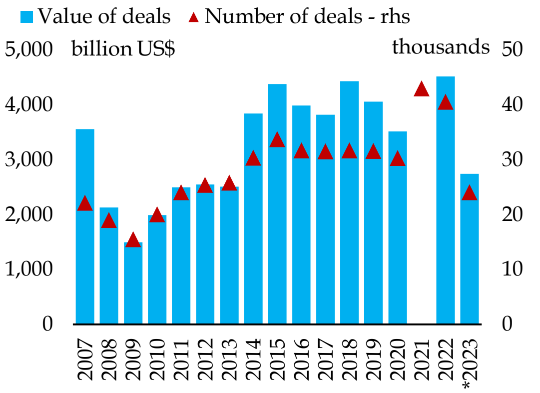
[1] IMF (2024), World Economic Outlook Update, January 2024, International Monetary Fund, Washington: IMF
[2] Ibid
[3] See discussion on inflation and global monetary policy responses in Chapter 3.

Cross-Border Mergers & Acquisitions **Figure 5.3**



*estimated by PitchBook

Source: PitchBook

Still elevated interest rates, banking crisis in early 2023, and ongoing geo-political conflicts have led to a challenging macroeconomic environment for global FDI flows, particularly to emerging markets. Global mergers and acquisitions declined for the second consecutive year in 2023, falling to the lowest level in last ten years (**Figure 5.3**). However, investment in emerging markets' bonds and equities remained on an upward trajectory in the wake of declining US dollar index and higher interest rates (**Figure 5.4**).[4]

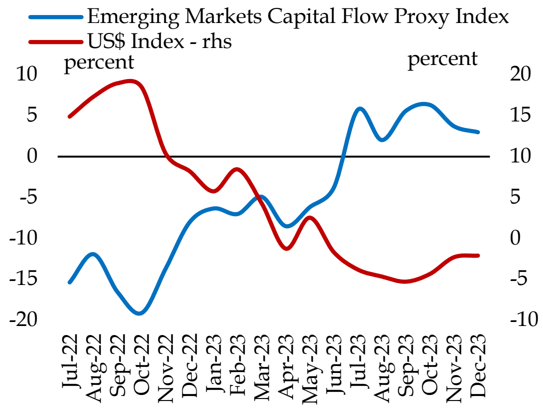
These global developments, particularly the tighter financial conditions and moderation in global trade, had implications for Pakistan's external account. The uneven global recovery impacted Pakistan's exports, especially textiles, with fluctuations in its demand across different markets. Additionally, volatility in global financial markets amid heightened domestic uncertainty influenced capital flows to the county. Pakistan navigated these headwinds by pursuing policies to contain domestic demand and ensure external account stability.

5.2 Pakistan's Balance of Payments

Pakistan's external account improved in the first half of FY24, as current account deficit (CAD) remained well contained and financial inflows increased after successful negotiation of Stand-By-Arrangement (SBA) with the IMF in June 2023. As a result, gross SBP reserves rose to US$ 8.2 billion at end-December 2023, up from US$ 4.4 billion in June 2023. This had positive spillovers on sentiments in foreign exchange market, which was reflected in QoQ exchange rate appreciation in the second quarter of FY24 **(Table 5.1)**.

A considerable narrowing of CAD was mainly on account of improved trade balance, as imports declined while exports grew over the last year. Workers' remittances, notwithstanding a decline

Capital Flows and US$ Index - YoY Change **Figure 5.4**



Source: Bloomberg

[4] GFSR, IMF, October 2023

Pakistan's Balance of Payments — Table 5.1

million US$

	H1-FY23	H2-FY23	FY24 Q1	FY24 Q2	FY24 H1	Change in H1-FY24 Absolute	Change in H1-FY24 Percent
Current account balance	-3,847	572	-1,029	107	-922	2,925	-76.0
Balance on trade in goods	-15,551	-9,268	-5,327	-4,825	-10,152	5,399	-34.7
Exports of goods	14,222	13,654	7,002	8,274	15,276	1,054	7.4
Imports of goods	29,773	22,922	12,329	13,099	25,428	-4,345	-14.6
energy imports	10,827	8,055	3,463	3,891	7,354	-3,473	-32.1
non-energy imports	18,946	14,867	8,866	9,208	18,074	-872	-4.6
Services account balance	-254	-788	-799	-357	-1,156	-902	355.1
Primary income balance	-2,672	-3,093	-1,593	-2,306	-3,899	-1,227	45.9
Interest Payments	2,079	2,533	1,188	1,711	2,899	820	39.4
Secondary income balance	14,630	13,721	6,690	7,595	14,285	-345	-2.4
Workers' remittances	14,418	12,915	6,332	7,104	13,436	-982	-6.8
Financial account (net)*	566	-98	-3,586	-937	-4,523	-5,089	-
Direct investment (net)*	282	-952	-383	-451	-834	-1,116	-
Portfolio investment (net)*	1,033	-21	-9	-62	-71	-1,104	-
Build-up in FX assets abroad	**-1,375**	**411**	**-309**	**94**	**-215**	1,160	-
FX Loans & liabilities	**-632**	**-467**	**2,885**	**518**	**3,403**	4,035	-
Banks	**-145**	**1,386**	**-78**	**229**	**151**	296	-
General Government	**-279**	**-1,806**	**1,565**	**573**	**2,138**	2,417	-
Disbursements	5,357	4,534	782	2,114	2,896	-2,461	-
Amortization	5,421	6,239	1,245	1,606	2,851	-2,570	-
Other liabilities (net)	-215	-101	2,028	65	2,093	2,308	-
Other Sector	**-211**	**-44**	**399**	**-284**	**115**	326	-
Disbursements	220	178	596	48	644	424	-
Amortization	792	871	260	528	788	-4	-
Other liabilities (net)	361	649	63	196	259	-102	-
Net Errors and Omissions	**-188**	**-662**	**-358**	**-325**	**-683**	-495	-
Overall Balance	**4,284**	**-66**	**-2,239**	**-767**	**-3,006**	-7,290	-
SBP's Liquid FX Reserves (end-period)	5,586	4,445	7,616	8,233	8,233		
PKR dep (-) / app (+) – YoY in percent	-24.1	-31.8	-20.1	-21.3	-22.2		
Average Exchange Rate (PKR/US$)	223.7	273.1	291.6	283.2	287.3		
End Period Exchange Rate (PKR/US$)	226.4	286	287.7	281.9	281.9		

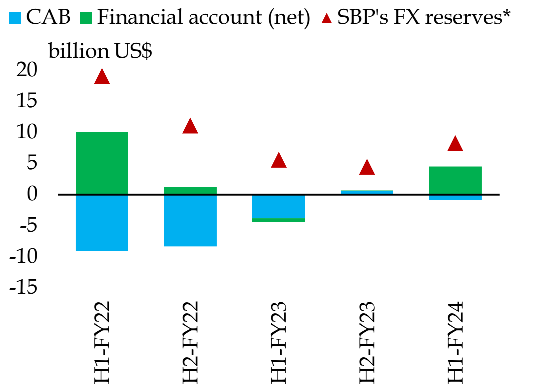
*as per BPM6, negative sign means net FX inflow into Pakistan and vice versa.

Source: State Bank of Pakistan

compared to H1-FY23, fully financed the trade deficit in goods and services and more than half of the primary income deficit (**Figure 5.5)**. However, the primary income deficit has considerably widened on account of higher interest payments on external debt and repatriation of accumulated profits / dividends. This implies that Pakistan either needs to run non-primary income current account surplus or arrange additional external financing for interest payments, besides meeting the debt obligations.

During the first half of FY24, the country managed to arrange sufficient financial inflows to meet external debt obligations. Financial account recorded a net inflow of

Pakistan's Balance of Payments **Figure 5.5**



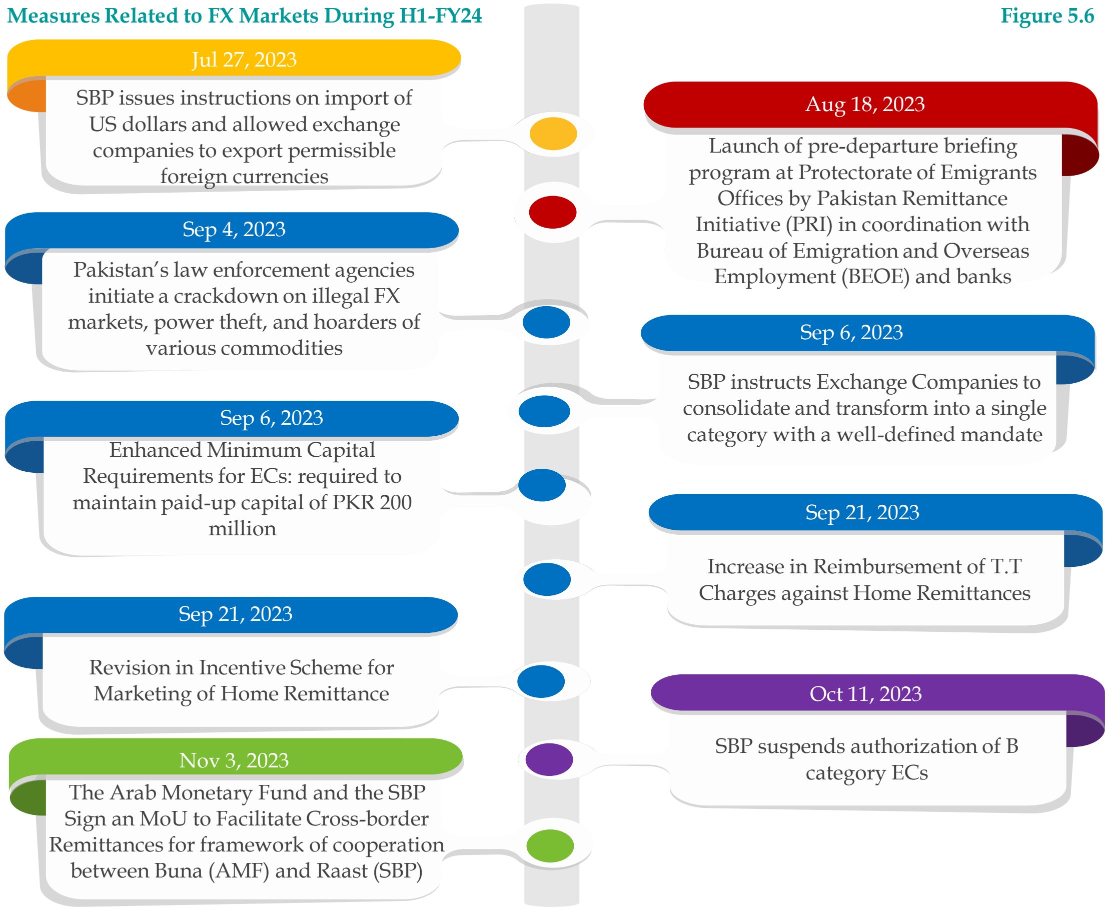
*end period

Source: State Bank of Pakistan

US$ 4.5 billion during H1-FY24 against net outflow of US$ 0.6 billion last year. These largely consisted of official inflows, disbursements under the IMF's SBA, as well as bilateral and multilateral flows.

Increase in FX reserves combined with the administrative measures and reforms in exchange companies, reduced pressures in foreign exchange market, with Kerb-market premium plummeting in the second quarter of FY24 **(Figure 5.6)**. This brought confidence in the foreign exchange market, leading to a sustained

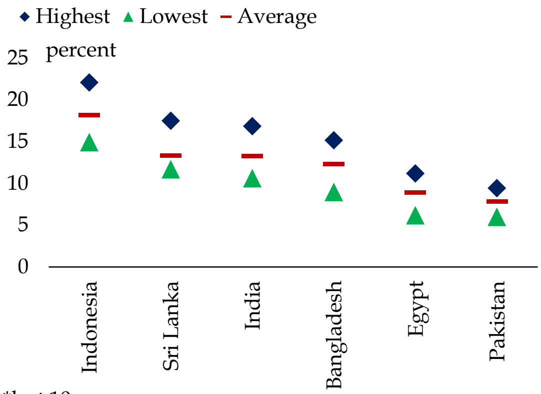
Measures Related to FX Markets During H1-FY24 **Figure 5.6**



Source: State Bank of Pakistan and Special Investment Facilitation Council strengthening of the PKR since September 2023.

These developments highlight the importance of maintaining a sustainable external account through enhancing foreign exchange earnings and attracting non-debt creating inflows to reduce the country's dependence on external borrowings. More specifically, it is imperative to focus on developing productive capacity for exports, which have almost stagnated around 8 percent of the GDP during last 10 years (**Figure 5.7**).

Exports as Percent of GDP* Figure 5.7



*last 10 years

Source: Haver Analytics

Similarly, the FDI inflows, mainly concentrated in non-exporting sectors, are burdening current account via higher profit/dividend repatriation. This underpins the need to encourage FDI into export-oriented sectors, which would not only bring much-needed foreign exchange to further strengthen debt servicing capacity, but will also aid in improving the country's production capability through associated technology transfer.

5.3 Current Account

CAD narrowed to US$ 0.9 billion during H1-FY24, around 76 percent lower compared to US$ 3.8 billion in the corresponding period of last year. A sizeable reduction in the trade deficit during H1-FY24, which outweighed the increase in interest payments and profit/dividend repatriation, mainly explains this improvement. Both import contraction and recovery in exports have contributed to narrowing of the trade deficit. Decline in imports by 14.6 percent, despite removal of import prioritization measures, reflects tepid domestic demand and lower international commodity prices. On the other hand, exports grew by 7.4 percent during H1-FY24, supported by increased production and higher export prices of agro-food items.

Furthermore, workers' remittances, albeit declining for the past two years, exceeded the deficit in trade in goods and services by US$ 2.1 billion in H1-FY24, as opposed to same period last year, when remittances fell short by US$ 1.4 billion to finance the deficit **(Figure 5.8)**.[5]

Services Account

Services trade deficit increased to US$ 1.2 billion in H1-FY24 compared to US$ 0.3 billion in the same period last year. The increase was on account of both increase services import and a slight decrease in

[5] It may be noted that during FY23, workers' remittances exceeded the trade deficit in goods and services, first time in last 20 years.

Services Trade Account — **Table 5.2**

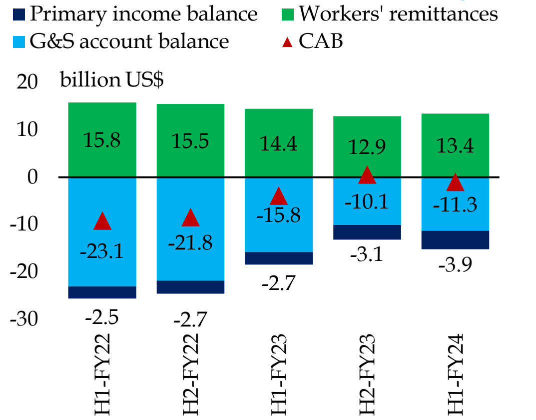
million US$

	Import (M)		Export (X)		Balance (X-M)	
	FY24	YoY Change	FY24	YoY Change	FY24	YoY Change
a) Transport	**2,298.9**	**145.9**	**479.0**	**44.2**	**-1,819.9**	**-101.7**
Sea freight	1,428.1	-22.8	36.6	-32.8	-1,391.5	-10.0
Air passengers	633.3	174.3	195.1	-22.0	-438.2	-196.2
Air freight	28.8	-1.8	16.6	-0.3	-12.2	1.5
b) Travel	**1,021.9**	**328.9**	**365.2**	**-112.7**	**-656.7**	**-441.6**
Education exp.	293.1	130.4	11.5	6.4	-281.7	-124.0
Other (personal)	721.5	201.8	341.5	-126.3	-380.0	-328.1
c) ICT Services	**204.1**	**37.1**	**1,455.1**	**120.2**	**1,251.0**	**83.1**
Software consultancy services	85.6	3.1	405.1	14.2	319.5	11.1
Other Computer services	11.0	-10.4	454.7	88.8	443.7	99.2
Export/Import of Computer software	61.9	22.8	310.8	8.4	248.9	-14.4
Call centers	0.0	0.0	120.0	12.4	120.0	12.4
Telecommunications services	42.7	-19.5	158.7	-160.8	116.0	-141.3
Subtotal (a+b+c)	**3,524.9**	**511.9**	**2,299.2**	**51.7**	**-1,225.6**	**-460.2**
Total services	**4,942.3**	**818.5**	**3,786.3**	**-83.8**	**-1,156.0**	**-902.3**

Source: State Bank of Pakistan

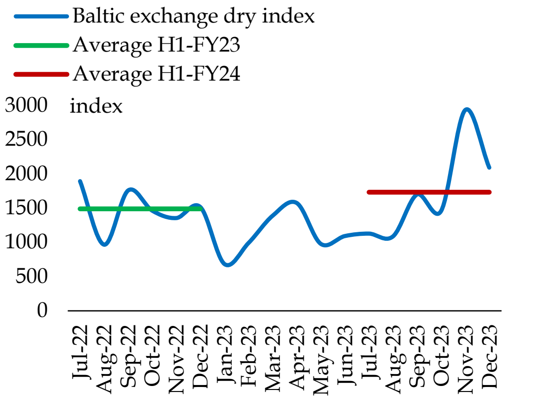
services export **(Table 5.2)**. The increase in services imports was mainly driven by payments related to transport and travel. The surge in transport payments is attributed to increase in fares for air passengers. Whereas, increase in payments for traveling may be traced to rise in international education fees. Hike in sea freight despite decline in merchandise imports during H1-FY24 reflects increase in shipping rates in the wake of Red Sea attacks and associated higher insurance premiums and cost of re-routing **(Figure 5.9)**.[6,7]

Current Account Balance (CAB) — **Figure 5.8**



Source: State Bank of Pakistan

Shipping Cost — **Figure 5.9**



Source: Bloomberg

[6] As reflected by the Baltic Dry Index (BDI). BDI is a composite index of four sub-indices and measures average price paid for the transport of dry bulk materials across more than 20 routes.
[7] Since October 2023, Houthi rebels have been targeting ships in the Red Sea.

The decline in exports of services was led by contraction in export of travel services, which overshadowed substantial pick-up in ICT exports on the back of higher exports of software consultancy, call center, computer software and other computer services. In addition to a relatively stable exchange rate, recent initiatives by the SBP also played a pivotal role in augmenting exports of ICT services.[8]

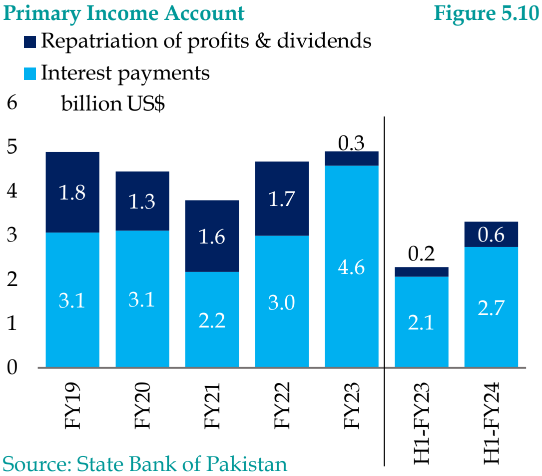
Notably, SECP data also shows an increase in registration of new IT-related companies to 2003 in H1-FY24 compared to 1951 during the same period last year. Number of IT companies registered during H1-FY23 remained on top, as compared to H1-FY22 when the real estate development and construction sector had taken the lead in new registrations.[9]

Primary Income Account

The primary income deficit rose to US$ 3.9 billion in H1-FY24 from US$ 2.7 billion in H1-FY23. This is mainly attributed to higher interest payments on external loans and repatriation of profits/dividends on foreign investment **(Figure 5.10)**. Surge in interest payments primarily shows the impact of rising global interest rates, as also reflected in higher Secured Overnight Financing Rate (SOFR) during the period.[10]

On the other hand, repatriation of profits/dividends on foreign investment substantially increased due to transfers of accumulated corporate earnings of leading MNCs following ease in FX flows. During the period, the petroleum refining sector reported the largest outflows under profits/dividends, followed by food, transport and financial businesses.

Primary Income Account **Figure 5.10**



Source: State Bank of Pakistan

[8] (i) In order to facilitate the IT exporters to boost the exports of IT and IT enabled services, SBP has increased the permissible retention limit of IT exporters from 35 percent to 50 percent of their export proceeds in the Exporters' Specialized Foreign Currency Accounts (ESFCAs). Further, the usage of the balances available in the ESFCAs has been simplified by allowing the IT exporters to make their payments from these accounts without any approval from SBP or banks (EPD Circular Letter No. 17 of 2023).
(ii) To further facilitate the freelancers, the SBP has developed a comprehensive framework for opening and operations of their bank accounts. Under the framework, freelancers will be able to open an ESFCA as defined in the Foreign Exchange Manual for retention of export proceeds concurrently with corresponding primary PKR account, in-person or remotely through digital means. All Freelancer Digital Accounts (FDA) opened so far, shall be considered to have been opened under this framework (BPRD Circular No. 05 of 2023).

[9] Number of new IT companies registered with SECP increased to 2,003 in H1-FY24 from 1,951 during the same period last year. Whereas, new companies registered under real estate development and construction decreased to 1,640 in H1-FY24 from 2,476 last year.

[10] SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities in the repurchase agreement (repo) market. Average SOFR (combined for 30, 90 and 180 days) increased from 2.95 during H1-FY23 to 5.28 in H2-FY24 (Source: www.newyorkfed.org).

Country-wise Workers' Remittances **Table 5.3**

million US$

							Change in H1-FY24 over H1-FY23	
	FY20	**FY21**	**FY22**	**FY23**	**H1-FY23**	**H1-FY24**	**Absolute**	**Percent**
US	1,743	2,600	3,087	3,168	1,616	1,577	-40	-2.5
UK	2,569	4,091	4,493	4,073	2,000	1,988	-12	-0.6
EU Countries	1,778	2,729	3,361	3,134	1,562	1,695	133	8.5
Italy	361	607	856	840	412	477	65	15.7
Spain	330	402	513	490	246	295	48	19.7
Germany	392	432	509	553	265	274	9	3.4
France	240	423	488	444	217	240	23	10.6
Greece	145	274	365	336	172	195	23	13.4
Australia	340	598	753	593	313	290	-23	-7.3
Canada	313	595	708	552	291	223	-68	-23.3
GCC	15,135	17,223	17,226	14,387	7,824	7,072	-752	-9.6
Saudi Arabia	*6,613*	*7,726*	*7,754*	*6,533*	*3,571*	*3,254*	-317	-8.9
UAE	*5,612*	*6,165*	*5,846*	*4,656*	*2,612*	*2,328*	-284	-10.9
Other GCC	*2,910*	*3,332*	*3,625*	*3,198*	*1,641*	*1,489*	-152	-9.3
Other countries	2,399	3,489	4,015	3,563	1,892	1,771	-121	-6.4
Total remittances	**23,132**	**29,450**	**31,279**	**27,333**	**14,418**	**13,435**	**-983**	**-6.8**

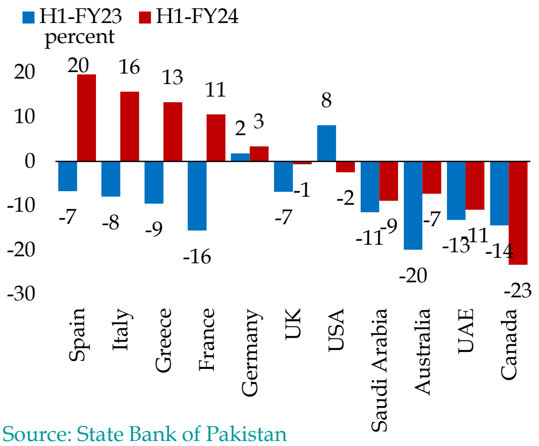
Source: State Bank of Pakistan

Workers' Remittances

Workers' remittances during H1-FY24 were recorded at US$ 13.4 billion, down by 6.8 percent as compared to H1-FY23 **(Table 5.3)**. Importantly, inflows from all major corridors (the US, UK and GCC) declined except for EU. Remittances from the EU region grew by 8.5 percent (as compared to a 10.7 percent decline last year) mainly due to reversal of trend in receipts from Italy, Spain, France and Greece **(Figure 5.11)**.

The growth in remittances from the EU may be attributed to lingering impact of high employment growth till Q2-2023 and dampening inflation in major EU countries.[11, 12] In the case of GCC, outward remittances to other destination countries have also declined in recent months, despite strong employment of foreign workers in Saudi giga-projects. According to the World Bank, this may be attributed to Saudi Arabia's recent policy that allowed foreign workers to bring families –

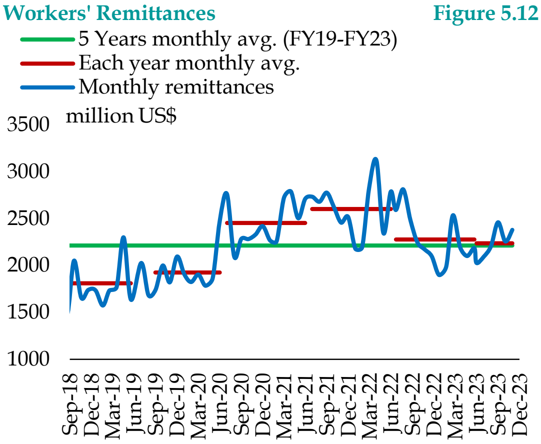
Workers' Remittance Inflows to Pakistan **Figure 5.11**



Source: State Bank of Pakistan

[11] Source: www.statista.com/statistics/1194672/employment-rate-in-europe/
[12] HICP (Harmonized Index of Consumer Prices) inflation rate of the EU declined year-on-year from 6.4 percent in June 2023 to 3.4 percent in December 2023.

Workers' Remittances **Figure 5.12**



Source: State Bank of Pakistan

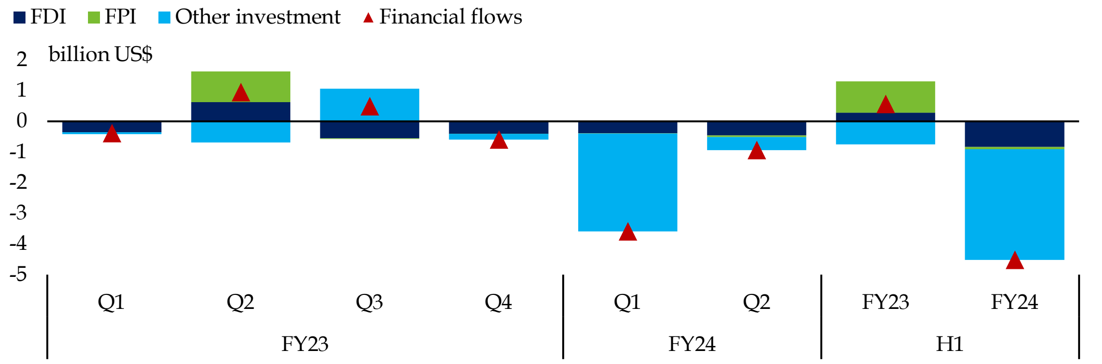
possibly resulting in fewer remittances back home, and a decline in GDP growth in GCC countries on the back of drop in oil prices and production cuts by the OPEC+.[13,14,15] In addition, high inflation in the Gulf region may also have affected workers' ability to save and remit back home.

Monthly remittances, still lower than the historical peak of April 2022, exceeded the averages during FY23, as well as last five years (FY19-23) during Q2-FY24 **(Figure 5.12)**. In order to enhance the inflow of remittances through formal channels, the SBP and the Government implemented several measures during H1-FY24 (see **Figure 5.6 in Section 5.2**).

5.4 Financial Account

Net financial inflows amounted to US$ 4.5 billion during H1-FY24, against outflows of US$ 0.6 billion during the same period last year (**Figure 5.13**). A larger part of these inflows was in the form of official loans and deposits. The successful negotiation of the IMF's SBA also paved the way for inflows from other multilateral and bilateral sources. There was also an uptick in foreign private investment into Pakistan. Moreover, amortization of

Financial Account* **Figure 5.13**



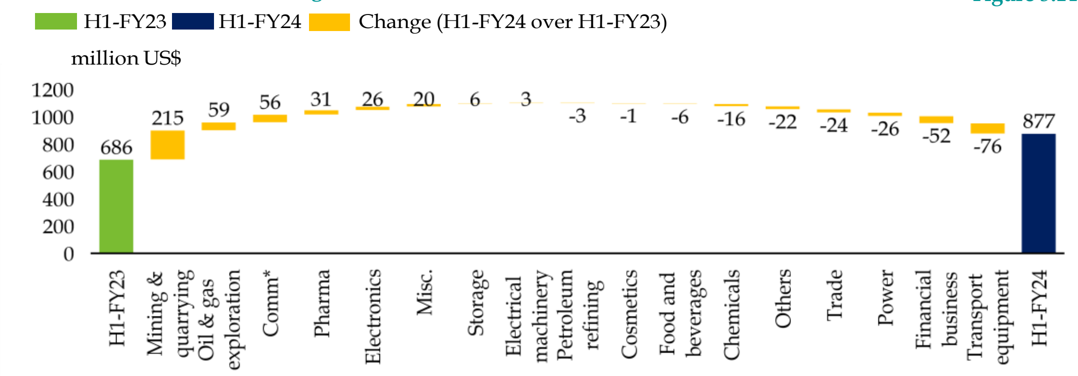
*as per BPM6, negative sign means net FX inflow into Pakistan and vice versa.

Source: State Bank of Pakistan

[13] Migration and Development Brief 39, December 2023, World Bank
[14] After surpassing 7 percent GDP growth in 2022, GCC's regional GDP is estimated to grow by only 1.0 percent in 2023. (Source: Gulf Economic Update, November 2023, World Bank)
[15] Several OPEC+ countries announced additional voluntary cuts to the total of 2.2 million barrels per day. Available at: www.opec.org/opec_web/en/press_room/7267.htm

Sector-wise Net FDI - YoY Change

Figure 5.14



*communications, including IT and telecom

Source: State Bank of Pakistan

external debt was significantly lower in H1-FY24 compared to the last year.

Foreign Direct Investment

Net FDI inflows into Pakistan rose to US$ 877 million in H1-FY24 compared to US$ 686 million in the corresponding period of last year. Sectoral breakup shows that mining and quarrying, oil and gas exploration, communications, hydel power, pharmaceuticals, electronics, and storage facilities were the major recipients. Conversely, there were gross FDI outflows from transport equipment, financial business, chemicals and textiles in H1-FY24 (**Figure 5.14**).

The mining and quarrying sector witnessed the largest net FDI inflows in H1-FY24, mainly due to foreign investment in the Saindak Copper and Gold Mine project, mainly sourced from China. Also, gross FDI inflows in oil and gas exploration were routed from Hong Kong. The power projects that attracted FDI inflows include Suki Kinari Hydropower Project under CPEC, and solar power projects from the Netherlands.[16,17]

The gross FDI inflows in pharmaceutical sector were the result of efforts to streamline pharma industry to meet the domestic demand.[18] Efforts included strengthening of the country's health infrastructure, applying technology to the transformation, and digitizing the overall healthcare system.[19]

The electronics sector saw increased gross FDI inflows from Singapore due to start of mobile assembling-cum-manufacturing in Pakistan under Mobile Device Manufacturing (MDM) regulations issued

[16] www.cpec.gov.pk/project-details/15

[17] www.ppib.gov.pk/upcomming-ipps/

[18] www.icci.com.pk/event/federal-health-minister-assures-to-address-key-issues-of-pharma-industry.html

[19] Steps have been taken to equip primary healthcare institutes with updated surgical and medical equipment, particularly in rural areas. Also, Pakistan has issued a National Digital Health Framework, promoting technological advances in the health system. Source: www.phkh.nhsrc.pk

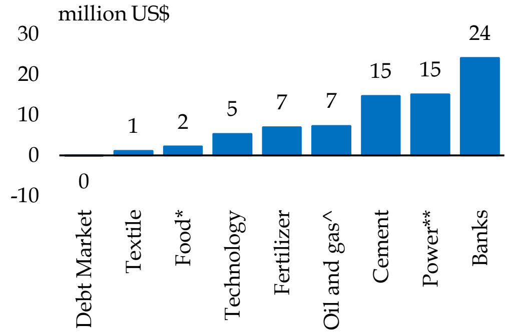
by Pakistan Telecommunication Authority (PTA).[20]

Foreign Portfolio Investment

Net FPI inflows in Pakistan amounted to US$ 71 million during H1-FY24, compared to the net outflow of US$ 1,033 million last year. Sector-wise data shows that most of these inflows were in the banking sector, which is performing better in terms of profits and dividends (**Figure 5.15**).[21] Power, cement, and oil and gas were other major sectors gaining attention of foreign investors.

Within the FPI, Roshan Digital Account (RDA) also recorded net inflows of US$ 93 million compared to net outflows of US$ 215 million last year. Most of these inflows were concentrated in Islamic Naya Pakistan Certificates, and an uptick in conventional NPCs (**Figure 5.16**). The increase was partly due to PKR stability and continued efforts to encourage inflows into NPCs.[22]

Sector-wise Net FPI in H1-FY24 **Figure 5.15**

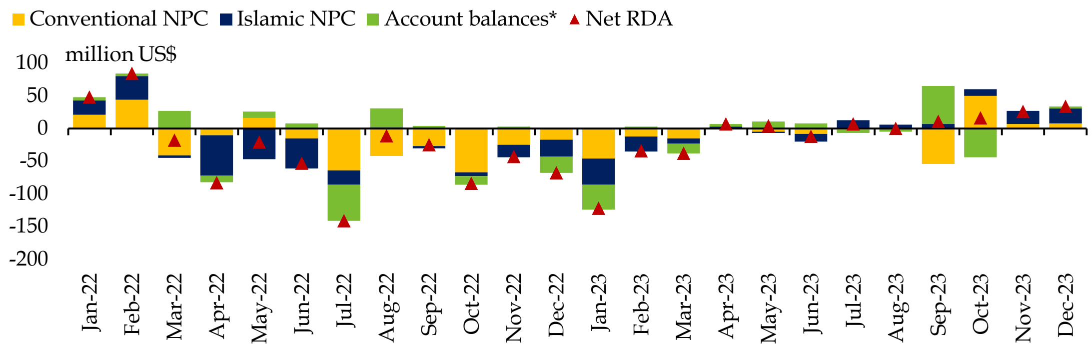


*Food and personal care products **Power generation and distribution ^Oil and gas exploration and marketing
Source: NCCPL

FX Loans and Liabilities

Net FX loans amounted to US$ 3.4 billion during H1-FY24, compared to net outflow

Change in Net RDA Flows **Figure 5.16**



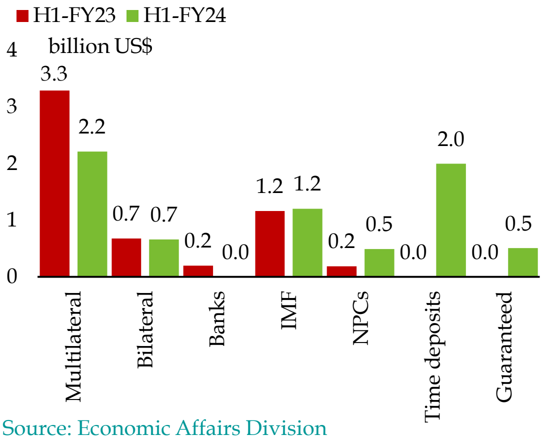
*including Roshan equity investments and other liabilities (outstanding position in government securities like T-bills, Sukuk, real estate, mutual funds, etc. but exclude NPCs.)
Source: State Bank of Pakistan

[20] Incentives include authorization of mobile device production for 10 years, with the possibility of renewal for another 10 years. Source: PTA
[21] This largely owed to rising banking sector profits in the wake of elevated government borrowing in a high interest rate environment.
[22] Finance Division increased the rates of return on conventional NPCs, vide Gazette Notification No. S.R.O. 1191(I)/2023, dated August 31, 2023

of US$ 0.6 billion in the same period last year. The inflows were mainly spurred by disbursements under the IMF's SBA, followed by bilateral and multilateral loans and deposits (**Figure 5.17**).[23,24]

Under the nine-month US$ 3.0 billion SBA approved by the IMF in June 2023 of US$ 1.2 billion was immediately disbursed in July 2023. Saudi Arabia lent US$ 2.0 billion to the government, and the UAE deposited US$ 1.0 billion with the SBP. Saudi Arabia also provided an oil facility of US$ 595.2 million during H1-FY24, and China disbursed a loan of US$ 500 million in July 2023.

Breakdown of FX Loan Inflows **Figure 5.17**



Source: Economic Affairs Division

Among other multilateral inflows, World Bank disbursed US$ 1.1 billion during H1-FY24 under the second Resilient Institutions for Sustainable Economy (RISE-II) Operation, a project with the goal of strengthening fiscal management and encouraging competitiveness for both inclusive and sustained economic growth.[25] Out of this, the AIIB contributed US$ 249.4 million to the project. Some of the inflows were repurposed for the Sindh Flood Emergency Rehabilitation Project and the Sindh Flood Reconstruction Emergency Housing project.[26,27]

In addition, the ADB disbursed US$ 300 million under the umbrella of 'Improved Resource Mobilization and Utilization Reform Program' with the aim to help Pakistan mobilize sufficient local resources, while also creating supplementary fiscal space via better expense management.[28] An additional sum of US$ 100 million was lent for the 'Women Inclusive Finance Sector Development Program'.[29]

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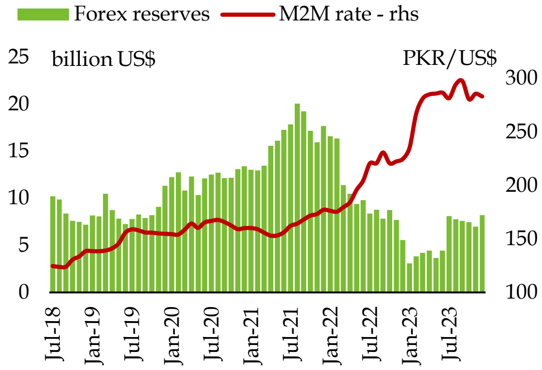
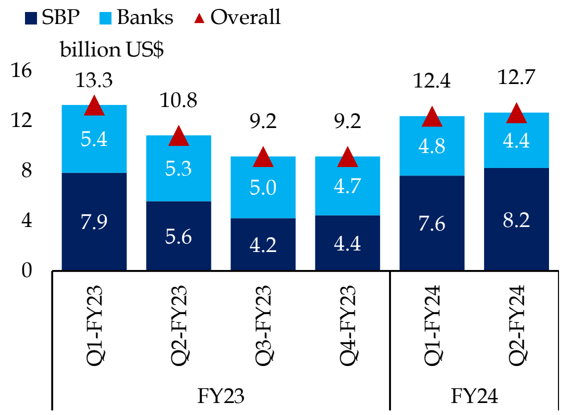
23 "IMF Executive Board Approves US$3 billion Stand-By Arrangement for Pakistan", IMF Press Release No. 23/261, Jul 2023.
24 Bilateral sources mainly include Saudi Arabia and UAE; whereas multilateral sources include ADB and the World Bank.
25 "Pakistan: World Bank Approves $350 Million in Financing to Support Fiscal and Competitiveness Reforms", World Bank, Press Release, December 2023
26 Project ID P179981 to rehabilitate damaged infrastructure, contribute to short-term livelihood prospects, and raise the Sindh government's resilience in responding to climate change and related disasters. World Bank. www.projects.worldbank.org/en/projects-operations/project-detail/P179981
27 Project ID P180008; for delivering beneficiary and disaster-resilient reconstruction of housing units. World Bank. www.projects.worldbank.org/en/projects-operations/project-detail/P180008
28 'Pakistan: Improved Resource Mobilization and Utilization Reform Program, Subprogram 1', Sovereign Project 56006-001. ADB. www.adb.org/projects/56006-001/main
29 'Pakistan: Women Inclusive Finance Sector Development Program (Subprogram 1)'; Sovereign Project 54424-001. ADB. www.adb.org/projects/54424-001/main

Pakistan's Forex Reserves and Average Exchange Rate **Figure 5.18 a**



Source: State Bank of Pakistan

Pakistan's Forex Reserves* **Figure 5.18 b**



*end-period

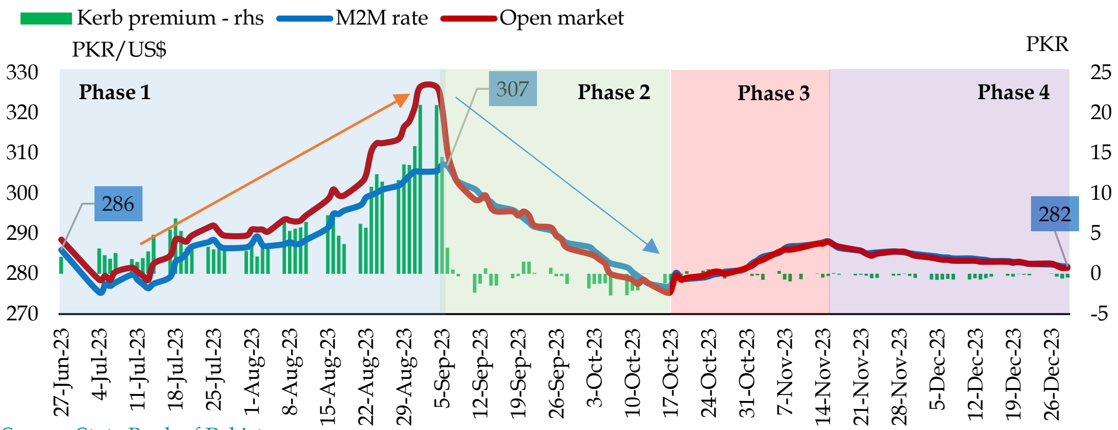
5.5 Exchange Rate and Reserves

Pakistan's FX reserves rose to US$ 12.7 billion by the end of H1-FY24, compared to US$ 10.8 billion in H1-FY23. The increase was largely in SBP's liquid reserves, which rose to US$ 8.2 billion by end-December 2023 from US$ 4.4 billion at end-June 2023 (**Figures 5.18a & 5.18b**).

Despite improvement in external account, PKR depreciated by 22.2 percent during H1-FY24 over the same period last year (**Figure 5.19**). However, after sharp depreciation in the first quarter, PKR recovered and gained stability in the second quarter of FY24. This is also reflected by a substantial decline in Kerb-market premium since mid September 2023. Infact, PKR was among the better performing currencies in emerging economies (**Figure 5.20**).

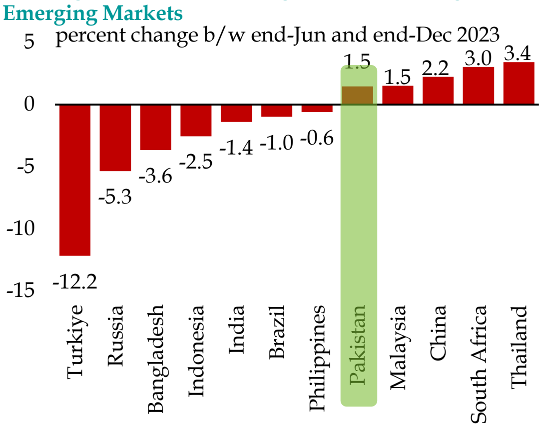
During Jul-Aug 2023, the external sector was facing several challenges, such as increasing financing gap, high volatility in FX market, tightening of global financial conditions, and heightened domestic

Trends in Exchange Rate and Kerb Market Premium **Figure 5.19**



Source: State Bank of Pakistan

Exchange Rate Movements against US$ in Emerging Markets **Figure 5.20**



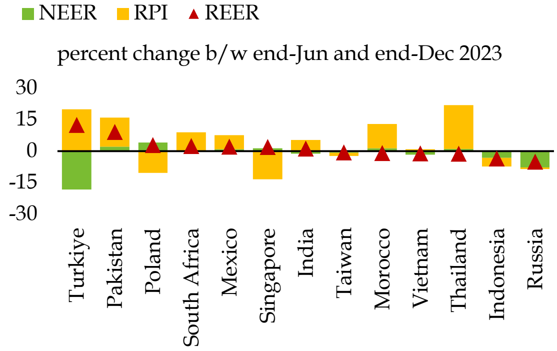
Sources: State Bank of Pakistan and Haver Analytics

uncertainty. These adversely impacted forex reserves and increased pressures on exchange rate. However, crackdown on illegal currency activities like smuggling of foreign exchange, besides exchange company reforms introduced by the SBP in September 2023, reduced pressures on the exchange rate. This combined with sustained improvement in current account balance and reserve position following disbursements from other bilateral and multilateral sources, led to a gradual appreciation of PKR from 5th September 2023 onwards. Supportive regulatory measures, like the imposition of a processing fee on Afghan imports of transit commercial goods via Pakistan and the suspension of B-category exchange companies' authorization, further alleviated the strains in the FX market (**Figure 5.6 in section 5.2**).

Some ambiguity about the first review under IMF's SBA briefly increased pressures on PKR against the US$ in early November 2023. Nonetheless, after the successful completion of the review and rollover of US$ 3 billion deposit by the KSA helped PKR regain stability.

Pakistan's real effective exchange rate (REER) index appreciated from 87.7 at end-June to 98.8 at end-December 2023. This was mainly due to higher domestic inflation vis-à-vis trading partners, i.e. relative price index (RPI). For countries such as Pakistan and Turkiye, the RPI contributed positively to the change in REER (**Figures 5.21a & 5.21b**).

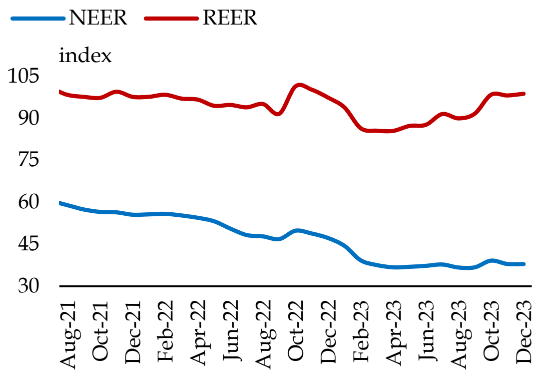
Real and Nominal Effective Exchange Rates - Emerging Markets **Figure 5.21 a**



*JP Morgan Effective Exchange Rates (deflated by CPI)

Source: Haver Analytics

Real and Nominal Effective Exchange Rate - Pakistan **Figure 5.21 b**



Sources: State Bank of Pakistan and Haver Analytics

Pakistan's Foreign Trade — **Table 5.4**

million US$

	H1-FY23	H1-FY24	Change: Absolute	Change: Percent
Trade Balance	**-16,964.8**	**-11,275.0**	**5,689.8**	**-33.5**
Exports	**14,243.7**	**14,991.3**	**748.0**	**5.3**
Textile	8,716.4	8,283.3	-433.2	-5.0
Apparel	*4,297.8*	*3,871.8*	*-426.0*	*-9.9*
Home textile	*1,919.4*	*1,877.2*	*-42.2*	*-2.2*
Cotton yarn	*381.5*	*588.5*	*207.0*	*54.2*
Non-textile	*5,527.3*	*6,711.6*	*1,184.3*	*21.4*
Rice	*927.9*	*1,638.0*	*710.1*	*76.5*
Oil seeds	*114.0*	*364.0*	*250.1*	*219.4*
Leather	*314.8*	*284.3*	*-30.6*	*-9.7*
Imports	**31,208.5**	**26,265.8**	**-5,144.3**	**-15.8**
Energy	9,285.5	8,005.8	-1,279.7	-13.8
Non-energy	21,923.0	18,274.5	-3,648.5	-16.6
Palm oil	2,082.3	1,388.1	-694.1	-33.3
Wheat	609.4	397.1	-212.3	-34.8
Machinery	3,235.1	3,606.1	371.0	11.5
Mobile phones	362.8	792.6	429.8	118.5
Rubber	112.4	131.4	19.0	16.9
Textile	2,108.9	1,302.1	-806.8	-38.3
Transport	1,163.0	840.8	-322.2	-27.7

Source: Pakistan Bureau of Statistics

5.6 Trade Account[30]

Trade deficit contracted by 33.5 percent during H1-FY24, largely contributed by a considerable decline in imports, as well as a moderate increase in exports (**Table 5.4**). A combination of subdued domestic demand, easing global commodity prices, and higher agro-food production contributed to the improvement in trade balance.

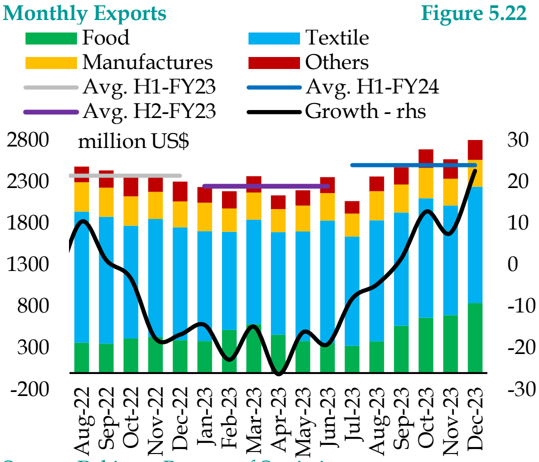
Exports

Exports grew by 5.3 percent in H1-FY24 against a decline of 5.6 percent in the corresponding period of last year. In contrast to past years, the increase in exports was contributed by non-textile groups, i.e. food group and manufactures (**Figure 5.22**).

Food exports have been on rise since the start of FY24, mainly due to increase in production.[31] Moreover, the PKR depreciation supported exporters to offer competitive prices in the international market. Specifically, there was a notable increase in the exports of rice, oil seeds, corn, and meat to Pakistan's major trading partners (**Table 5.5**). On the contrary, textile exports declined amidst lower unit

[30] This section is based on customs data reported by the Pakistan Bureau of Statistics (PBS). The information in this section does not tally with the payments record data, which is reported in Sections 5.2 and 5.3. To understand the difference between these two data series, see Annexure on Data Explanatory Notes.
[31] Rice production reached 8.6 million tons in FY24, well above the last year level and five-year average.

Monthly Exports Figure 5.22



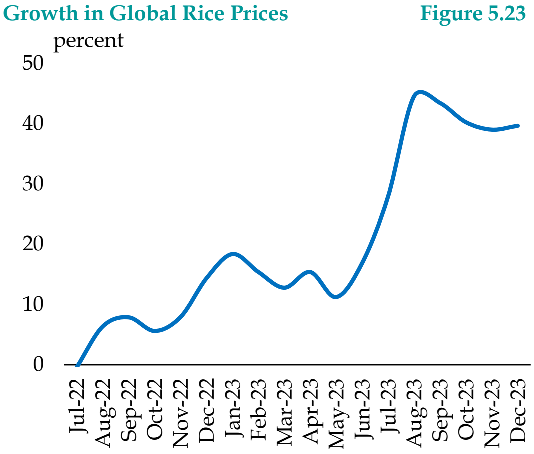
Source: Pakistan Bureau of Statistics

values. The decline was most pronounced in high-value added textile exports to the traditional markets, such as the EU and the US.

Food Exports

The disaggregated data indicates that food exports are driven by an increase in both unit values and export volumes (**Table 5.6)**. More specifically, rice played a significant role in driving upturn in food

Growth in Global Rice Prices Figure 5.23



Source: World Bank

Destination-wise Exports of Pakistan Table 5.5

	Value (million US$)		Change (percent)	
	H1-FY23	H1-FY24	H1-FY23	H1-FY24
EU-27	4,433.8	4,055.7	10.7	-8.5
Netherlands	*747.8*	*669.8*	*8.7*	*-10.4*
Spain	*692.2*	*747.9*	*36.1*	*8.0*
Italy	*572.8*	*568.2*	*17.2*	*-0.8*
Germany	*881.2*	*731.0*	*2.0*	*-17.0*
US	3,067.7	2,745.7	-7.7	-10.5
China	1,058.1	1,481.5	-20.6	40.0
UK	1,003.4	1,014.7	-12.5	1.1
UAE	726.0	1,000.9	-16.5	37.9
Bangladesh	420.8	305.4	4.6	3.6
Afghanistan	251.6	260.7	4.6	3.6
Saudi Arabia	221.4	328.2	13.1	48.3
Rest of World	3,209.4	4,136.9	9.2	28.9

Source: State Bank of Pakistan

exports, which could be ascribed to two key factors.[32] First, the global rice supply disruptions amidst export ban by India during Jul-Aug 2023, due to food security concerns, exerted upward pressure on rice prices in international market. Second, recovery in rice production, supported by increase in sowing area, higher prices, as well as yields. These factors helped Pakistan to benefit from surging global rice prices by exporting higher volumes (**Figures 5.23**).[33]

Export of oil seeds, particularly sesame seeds, was another major contributor to food exports. Export of oil seeds jumped by US$ 257 million to US$ 364 million during H1-FY24. Under China Pakistan Free Trade Agreement Phase II, China has emerged as a major importer of sesame seeds from Pakistan. Thus the combination of high export unit values and confirmed

[32] Rice has the highest share of 24.4 percent in non-textile exports.
[33] See Figure 2.8 in Chapter 2 for rice production.

Non-textile Exports - Volume and Price Effect during H1-FY24 **Table 5.6**

million US$, quantity in 000 MT

	Quantity	Value	Change in Value	Volume Effect	Price Effect
Rice	2,570.9	1,638.0	710.1	448.8	261.4
Basmati	318.	367.3	84.7	52.1	32.6
Others	2,252.9	1,270.8	625.4	347.5	277.9
Fish	92.6	199.0	-26.2	11.4	-37.6
Fruits	482.6	171.3	14.6	57.7	-43.1
Oil seeds	246.6	364.1	257.2	255.6	1.6
Meat	59.5	240.2	48.2	81.0	-32.8
Footballs*	2,454.7	117.8	-2.8	8.3	-11.2
Leather**	6131.6	284.3	-30.6	28.6	-59.2
Plastic	180.5	178.9	56.9	152.8	-95.9
Pharmaceutical products	38.5	154.8	-20.3	80.4	-100.7
Electric fans†	589.4	10.4	-0.5	0.5	-1.0
Cement	3,503.3	135.9	50.3	89.4	-39.1

Quantities in: *thousand dozens, **000SQM, †000No

Source: Pakistan Bureau of Statistics

orders provided a considerable boost in the domestic production of sesame seeds over the past few years, allowing increase in export volumes.[34]

In the case of corn exports, a sustained increase in production, along with decline in domestic demand from the poultry industry, has resulted in higher exportable surplus during the first half of FY24.[35,36] Amongst the major importers of corn, Vietnam imported the largest volumes, followed by Malaysia and Sri-Lanka.

Manufacture Exports

Exports of other manufactures, including rubber tyres and cement picked up during H1-FY24 compared to last year. Recently, Pakistan has started exporting steel belted rubber tyres of heavy vehicles to the USA and Brazil, following the setting up of a new manufacturing facility by a leading tyre manufacturer in Pakistan in collaboration with China in 2022.[37] Similarly, the exports of cement rose in H1-FY24 due to the higher dispatches to Afghanistan on the back of rise in construction activity in the country.

Textile Exports

During H1-FY24, textile exports faced significant headwinds, primarily due to declining unit values as export volumes increased for almost all categories. As a result, textile exports decreased to US$ 8.3 billion in H1-FY24 from US$ 8.7 billion in

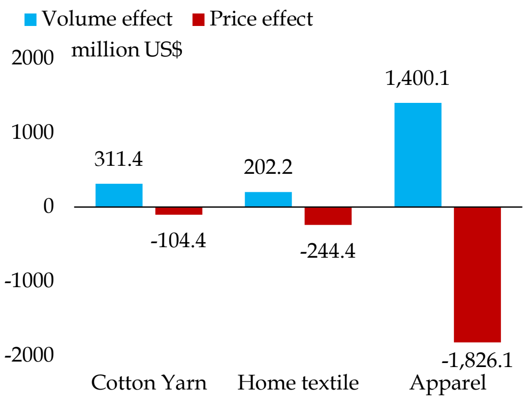
[34] In Phase II of CPFTA, China liberalized 1,471 tariff lines including oil and seeds resulted in a continuous rise of these products, particularly sesame seed, since its enactment in FY21.

[35] Higher prices have dented the demand for chicken in the country, which in turn led to a decline in demand for corn— a major ingredient in the poultry feed industry. Source: USDA FAS.

[36] Corn exports grew by 71 percent in H1-FY24 compared to last year, mainly destined to Vietnam and Malaysia.

[37] In FY23, a major local tyre manufacturer signed an agreement with a Chinese company to manufacture steel belted truck and bus radial tyres in Pakistan.

Performance of Textile Exports during H1-FY24 **Figure 5.24**



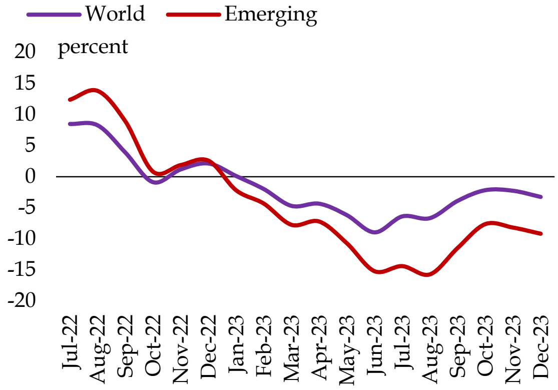
Source: Pakistan Bureau of Statistics

the corresponding period of last year **(Figure 5.24)**. The decrease in textile prices indicated declining unit values in traditional markets (**Figures 5.25a & 5.25b**).

The fall in the unit values was evident in all the major textile exporting countries. This was a result of intensifying global competition from China – a dominant supplier in the international market. Based on the declining cost of production, China has managed to offer textile products at competitive prices.[38] Consequently, other exporting countries, including Pakistan, were compelled to re-negotiate their export prices downward, resulting in declining apparel export receipts.[39] For instance, in the EU market, the unit values of apparel for China and Bangladesh recorded a decline of 14.4 percent and 14.0 percent respectively during Q1-FY24 (**Figures 5.26a & 5.26b**).[40]

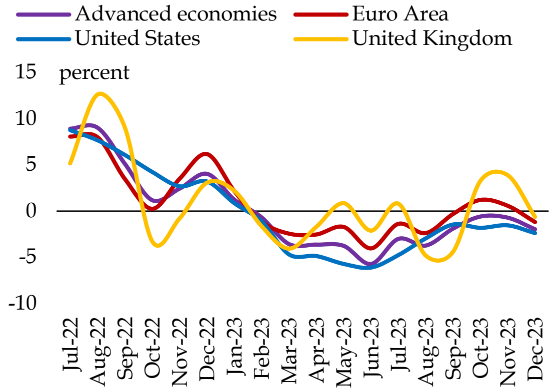
The impact of lower unit values was more pronounced in high value added (HVA) textiles. The downtrend in unit values was also evident from the sharp dip in values of apparel and home textiles, especially in EU **(Figure 5.27**). Contrary to the trends in unit values, the export quantities recorded an uptick during H1-FY24. The export

Trend in Emerging Economies' Export Prices **Figure 5.25 a**



Source: CBP World Trade Monitor

Trend in Import Prices in Traditional Markets **Figure 5.25 b**

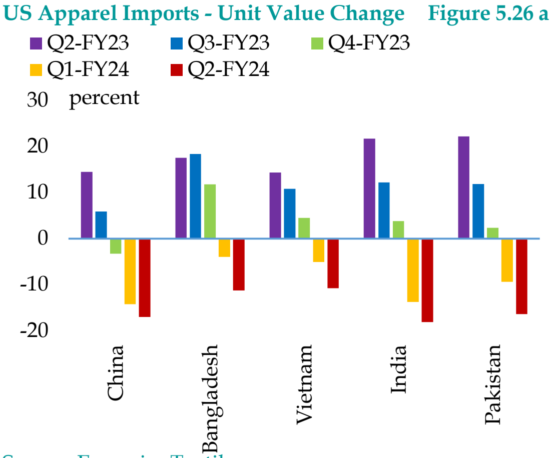


Source: CBP World Trade Monitor

38 This is worth mentioning that China was fearing deflation when all other countries were facing rising inflationary pressures.
39 In addition, Pakistan had a leverage to re-negotiate prices downward due to PKR depreciation.
40 In US market, the unit values of declined by 4 percent for China, Pakistan and India during Q4-FY24. Source: Emergingtextiles

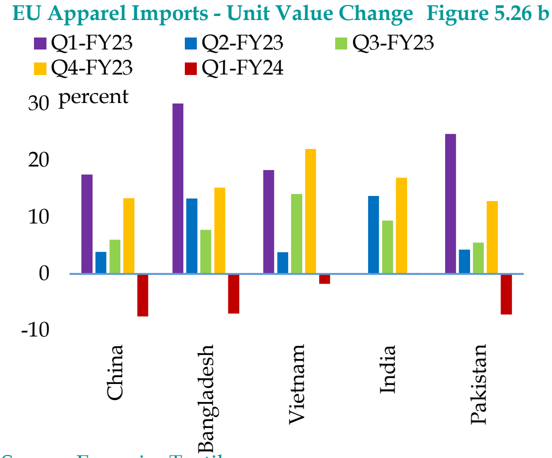
Balance of Payments

US Apparel Imports - Unit Value Change **Figure 5.26 a**



Source: EmergingTextiles

EU Apparel Imports - Unit Value Change **Figure 5.26 b**



Source: EmergingTextiles

volumes of apparel and home textiles increased by 32.6 percent and 10.5 percent in H1-FY24 respectively.

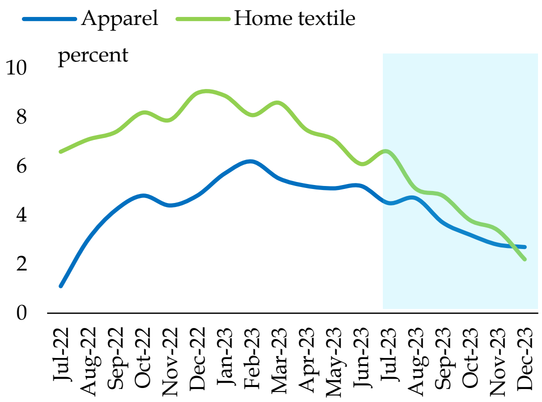
Imports

Imports saw a broad-based decline of 15.8 percent during H1-FY24, compared to 23.1 percent contraction last year. Primarily, moderating global commodity prices, particularly of crude oil, explain the contraction in imports. In addition, exchange rate depreciation also dented import demand and hence volumes (**Figure 5.28**). However, in line with the moderate recovery in domestic economic activity, import volumes, particularly of raw materials, posted an increase during Nov-Dec 2023 (**Table 5.7**).[41]

Energy

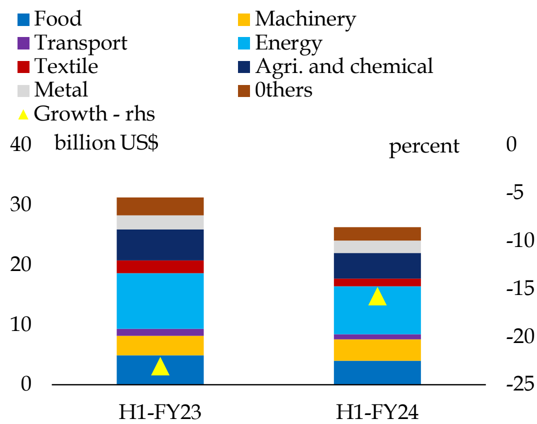
Energy imports edged down by 13.8 percent during H1-FY24, which predominantly explains decline in overall

Domestic Prices of Textile Products in EU **Figure 5.27**



Source: Eurostats

Component-wise Imports **Figure 5.28**



Source: Pakistan Bureau of Statistics

[41] Import volumes of raw materials such as synthetic fiber, iron and steel and rubber increased during Nov-Dec 2023.

Imports during H1-FY24 **Table 5.7**

million US$, quantity in 000 MT

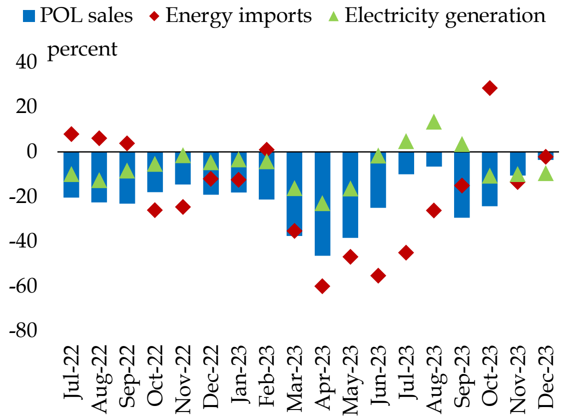
	Quantity	Value	Change in Value	Volume Effect	Price Effect
Food		**4,721.5**	**-1,262**		
Milk	21	67	-27.1	-19	-8.2
Wheat	1,367	573	-201	-64	-137
Tea	140	391	28	33	-7
Soybean oil	84	100	-99	-41	-59
Palm oil	1,486	1,611	-835	-141	-964
Energy	**9,132**	**9,332**	**-1,391**	**-579**	**-812**
POL	4,838	3,621	-1,268	-812	-456
Crude	4,296	2,978	-123	234	-356
Textile		**1,518**	**-947**		
Raw cotton	84	208	-907	-862	-45
Agro chemical		**5,080**	**-746**		
Fertilizer	596	494	-14	-58	44
Others		**534**	**-48**		
Rubber crude	238	151	25	25	0
Rubber*	1,751	53	-21	-6	-15

*quantity in 000 No.

Source: Pakistan Bureau of Statistics

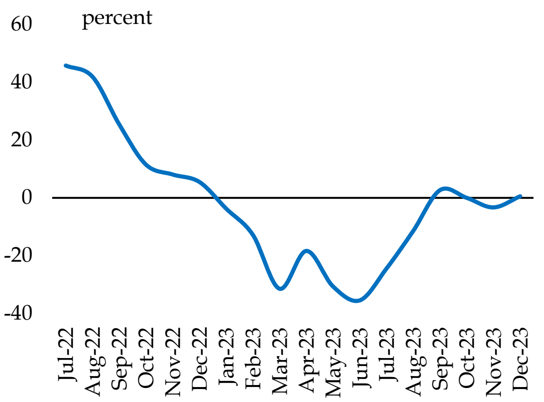
import bill during H1-FY24. Lower global crude oil prices, continued subdued economic activity, and change in energy mix for electricity generation mainly led to this decline (**Figures 5.29a, 5.29b and 5.30)**. Amidst significant decline in global prices of coal and LNG, Pakistan changed its energy mix by shifting electricity generation from furnace oil to relatively cheaper sources, such as coal, hydel, etc.[42] Moreover, decline in electricity generation

Energy Imports and Domestic POL Sales **Figure 5.29 a**



Sources: PBS, OCAC and NEPRA

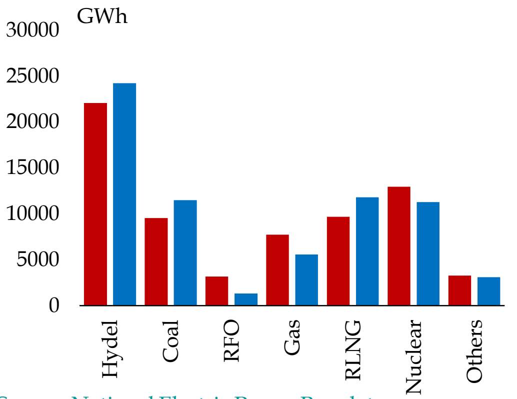
Global Crude Oil Prices **Figure 5.29 b**



Source: World Bank

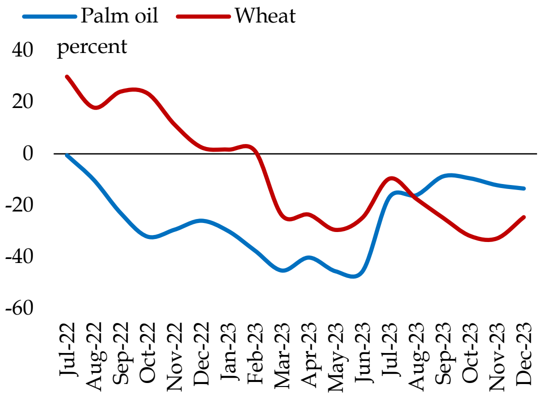
[42] According to World Bank commodity price data, global prices of coal and LNG declined by 59 percent and 39 percent respectively during Jul-Dec FY24.

Source-wise Electricity Generation **Figure 5.30**



Source: National Electric Power Regulatory

Global Prices of Major Food Commodities **Figure 5.31**



Source: World Bank

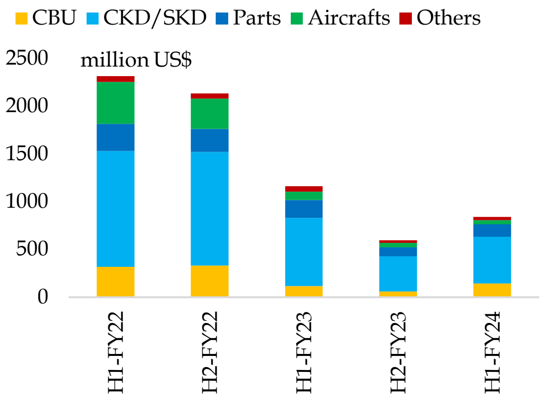
as indicated by a fall in POL sales to power sector, also contributed to volumetric decline in imports of POL products.

Food

There was a substantial decrease in food imports, particularly of palm oil and wheat, during Jul-Dec FY24. Both from lower volumes and prices contributed to this decline. Within the food group, palm oil imports – having the highest share in food imports – declined by US$ 694.1 million in H1-FY24. This could partially be attributed to decrease in palm oil prices on account of excess supply from Malaysia and Indonesia amidst subdued demand in the international market.

Import of wheat contracted by US$ 212.3 million during the review period. Both reduced import requirements following increase in domestic production and fall in global wheat prices due to increased supplies from Russia have resulted in lower wheat imports during H1-FY24 (**Figure 5.31)**.

Transport Group Imports **Figure 5.32**

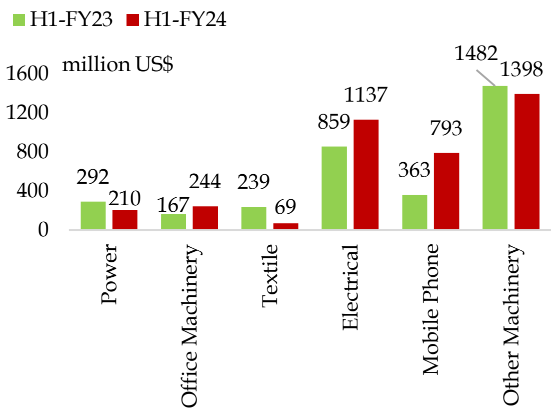


Source: Pakistan Bureau of Statistics

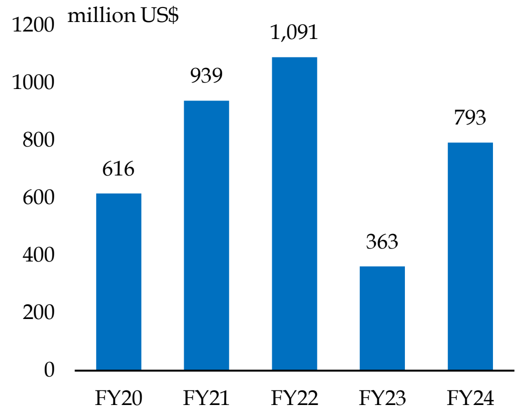
Transport

Import of transport group shrank to US$ 0.8 billion during H1-FY24 from US$ 1.2 billion in H1-FY23 (**Figure 5.32)**. The decline was mainly driven by fall in import of CKD/SKD vehicles owing to a slump in the sales of domestically produced vehicles. The domestic production of vehicles continued to fall amid elevated borrowing cost, as well as surge in vehicle

Machinery Imports during H1 Figure 5.33 a



Import of Mobile Phones during H1 Figure 5.33 b



Source: Pakistan Bureau of Statistics

prices.[43] However, with the ease in administrative constraints, together with the pent-up demand, CBU imports posted an increase in H1-FY24, albeit lower than the average of last 5 years.

Machinery

Import of machinery increased by 11.5 percent in H1-FY24, primarily driven by an increase in import of mobile phones (**Figures 5.33a & 5.33b**). The import of mobile phones witnessed a significant growth, particularly in second quarter of the review period, reaching US$ 792 million. This is largely explained by the pent-up demand for the completely built units of mobiles.[44] The removal of import restrictions, in conjunction with PKR appreciation since September 2023, created a favorable environment, leading to higher imports of mobile phones.

[43] See Figure 2.17 of Chapter 2 for data on auto sales.
[44] Completely Built Units (CBU) refers to finished mobiles handsets imported into Pakistan. Whereas, Semi Knocked Down (SKD) are the parts that are imported in Pakistan for assembly.