



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan\*

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Volume 15, Issue No. 03 | Date: January 17, 2020

A Company Set Up Under Section 42 of the Companies Act, 2017

## PAKISTAN TIDINGS

### 4<sup>th</sup> Pakistan Banking Awards - 2019

The Institute of Bankers Pakistan (IBP) organized the 4<sup>th</sup> Pakistan Banking Awards 2019 at a local hotel on Friday, January 10, 2020. Pakistan Banking Awards are an initiative to recognize the efforts being made by the Banking sector for the overall growth and development of the national economy. The event was conducted in collaboration with The DAWN Media Group and A.F. Ferguson & Co. (a member of PwC global network).

Dr. Reza Baqir, Governor State Bank of Pakistan graced the occasion as the Chief Guest. Dr. Reza Baqir urged banks to enhance their role in the growth of the country's economy. He said the government had succeeded in reducing the current account deficit and stabilizing the exchange rate, adding that these two successes had a positive impact on the country's economy. Earlier, Mr. Mansur-Ur-Rehman Khan, the Chief Executive IBP, in his welcome address, dwelt on the role of IBP and the concept behind the Awards for motivating the banking sector, which are given every year since 2016. He also thanked the Governor SBP and other distinguished guests in the gathering.

In all seven awards were given to various banks for their best performance in different categories, the details of which are as follows:

**Best Bank Award**  
Bank Alfalah Limited

**Best Investment Banking Award**  
Habib Bank Limited

**Best Consumer Franchise Award**  
Bank Alfalah Limited

**Best Bank for Agriculture Award**  
National Bank of Pakistan

**Best Bank for Small & Medium Businesses Award**  
Habib Bank Limited

**Best Microfinance Bank Award**  
Khushhali Microfinance Bank

**Bank the Unbanked Award**  
Mobilink Microfinance Bank

## MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

### MONETARY POLICY RATE

Effective from July 16, 2019 - 13.25pc

### KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	13.25	13.50
ENDING	13.24	13.49
CHANGE	-0.01	-0.01

### FOREIGN EXCHANGE RATES

	GBP(£)	EURO(€)	USD(\$)
STARTING	PKR 203.50	PKR 172.20	PKR 155.20
ENDING	PKR 202.50	PKR 172.50	PKR 155.20
CHANGE	-1.00	+0.3	0

### PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	43,207
ENDING	43,167
CHANGE	-40

### GOLD RATE

	(10 gm)
STARTING	PKR 76,732
ENDING	PKR 76,732
CHANGE	0



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## Tractor Traction

Tractor Sales Registered 15,200 Units during the First Half Year of 2019-20. Sales of Al Ghazi Tractors Ltd (AGTL) stood at 5,881 units in IHFY20 as compared to 17,993 in FY19 and 27,839 units in FY18. "The backbone of the tractor industry is its 200 plus vendors who employ over 10,000 skilled and unskilled workers." The government should also consider mobilizing Zarai Taraqiati Bank Ltd to dole out tractor loans to farmers at half the prevailing interest rates as proposed by CEO AGTL Mohammad Shahid Hussain.

## Fitch Reaffirms Pakistan's Rating at B-, Outlook Stable

Noting weak external and fiscal positions and slowing economy, Fitch Ratings recently affirmed Pakistan's long-term Foreign Currency issuer default rating at 'B-negative' with a stable outlook. The New York-based agency, one of the three major global rating agencies noted high debt-to-GDP ratio, economic growth rate of 2.8pc and fiscal deficit at the elevated 7.9pc level besides high inflation and interest payments and weaker revenue growth as key weaknesses.

## SBP Reserves Rise to \$11.5 bn

Foreign exchange reserves held by the State Bank of Pakistan (SBP), during the week ending Jan 5, rose to 21-month high increasing by \$14.3 mn to \$11.503 bn, reported the bank. However, reserves of the commercial banks slipped by \$10.9 mn to \$6.58 bn during the week. The country's total reserves have also increased by \$3.4 mn to \$18.084 bn.

## Efficiency Standards for Lighting Products

The government has decided to introduce efficiency standards for all lighting products and equipment with effect from January 15, 2020, as part of an aggressive energy conservation plan for all sectors of economy to reduce energy costs to consumers and be competitive in the market. The Managing Director of the National Energy Efficiency and Conservation Authority (NEECA), Dr. Sardar Mohazzam, told that the minimum energy standards for lighting would come into force on Jan 15, for motors in February and then for refrigerators

## PAKISTAN'S MAJOR ECONOMIC INDICATORS

REAL SECTOR (GROWTH IN %)	FY 2018 <sub>R</sub>	FY 2019 <sub>P</sub>	FY 2020 <sub>T</sub>	-
REAL GDP	5.5	3.3	4.0	-
AGRICULTURE SECTOR	3.9	0.8	3.5	-
INDUSTRIAL SECTOR	4.9	1.4	2.3	-
SERVICES SECTOR	6.2	4.7	4.8	-
CPI INFLATION (YoY%)	FY 2019 <sub>PA</sub>	JUL-NOV FY20 <sub>PA</sub>	NOV 2019	DEC 2019 <sub>T</sub>
NATIONAL	6.8	10.8	12.7	12.6
URBAN	7.1	10.8	12.1	12.0
RURAL	6.3	10.8	13.6	13.6
FOOD INFLATION-URBAN/RURAL	4.7/4.8	13.0/14.2	16.6/19.3	16.7/19.7
	FY 2018	FY 2019 <sub>P</sub>	Jul - DEC 19	-
CURRENCY IN CIRCULATION (IN BILLION RS.)	476.5	562.2	440.826	-
<sup>P</sup> PROVISIONAL	-	-	-	-
<sup>PA</sup> PERIOD AVERAGE	-	-	-	-
<sup>T</sup> Target from Annual plan 2018-19- PBS	-	-	-	-
<sup>R</sup> Revised	-	-	-	-

Data Sources: Planning Commission- PBS/ STATISTICS-SBP NEWS/ PROVISIONAL DATA



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and air-conditioners within the next six months. The NEECA is a federal agency on energy conservation with representation from the provincial governments, the federal ministry of energy and the regulatory authorities to initiate and coordinate all energy conservation activities in various sectors of economy.

## Six-month Remittances Rise to \$11.4 bn

Remittances received by the country rose by 3.3pc to \$11.394 bn during the first half of 2019-20 as compared to \$11.03 bn in the same period last year, the State Bank of Pakistan reported recently. Inflows during December showed a healthier trend as they surged 19.89pc year-on-year to \$2.097 bn, from \$1.748 bn in corresponding period last year and 15pc month-on-month from \$1.819 bn in November 2019. Country-wise details show the highest remittances came from Saudi Arabia at \$2.168 bn during July-Dec. Meanwhile, the United Arab Emirates came in second with \$2.349 bn in inflows. The United States was the third most important source as remittances from the country jumped 9.08pc, the highest rate of increase from a major partner in the first six months of FY20. Another \$1.089 bn came from the Gulf Cooperation Council countries with a growth of 3.17pc over \$1.055 bn. Malaysia has also lately become a significant contributor to the remittance with inflows from the country rising to \$798 mn. Inflows from the European Union, on the other hand, posted increase of 8.4pc to \$339.24 mn during 1HFY20. Given the six-month remittances figures at \$11.4 bn, the country can possibly receive around \$22-23 bn in inflows by the end of the fiscal year, assuming the same growth trajectory continues. The United Kingdom also posted a healthy increase of 6.4pc as inflows rose to \$1.753 bn during July-December FY20.

## Soya Bean for National Food Security

Pakistan produces large quantities of wheat, rice, maize, sugar cane and cotton. Still, the state of food security in the country is not satisfactory. A rise in population and depleting water resources are only exacerbating the situation and failure to achieve food security may push the country towards food imports. Gauging the severity of the food security issue, the Federal Government has launched the National Agriculture Emergency Program to increase the

productivity of oilseeds such as canola, mustard and soya bean. Major oilseed crops grown in Pakistan are canola, rapeseed, cotton and sunflower, which are primarily used as cooking oil. The demand for cooking oil has been on the rise in Pakistan but the local production of oilseed crops is negligible, and country is dependent on imports. During the 2016-17 fiscal year, only 12pc of our total edible oil requirement of 3.6 mn tonnes was met by local produce. The remainder was contributed by imports at a cost of \$3 bn. So soya bean should be cultivated on top priority basis, which contains up to 42pc protein, 22pc oil contents and 30pc carbohydrates and vitamins.

## Tax Reforms Yield Rs. 209 bn in More Revenue

The Federal Board of Revenue (FBR) collected Rs. 209 bn additional during the first five months of this fiscal year mainly due to structural changes in taxation system, procedures and withdrawal of exemptions. Data shows that these much-needed reforms in taxation system are already bearing fruit despite a huge import compression of around \$5 bn. The FBR estimates a tax cost of Rs. 56 bn for each \$1 bn-cut in imports. The unprecedented initiatives were introduced to remove structural flaws in sales tax, federal excise duty and income tax in the budget 2019-20. The FBR collection grew by 16.4pc in the first half of this fiscal year. Income tax, sales tax and the federal excise duty (FED) showed a growth of 19pc, 25pc and 23pc respectively. The highest growth rate has been registered in the sales tax regime.

## Govt. Raises Rs274.7bn From T-bill Auction

The government received bids over Rs1.1 trillion in the latest Treasury bill auction, the State Bank of Pakistan said in a release issued on Wednesday. However, the government only accepted bids worth Rs274.7 billion or 25 per cent less than the auction target of Rs400bn against the maturity amount of Rs345.9bn. The quantum of bids indicated banking sector's eagerness to invest in government papers while at the same time it reflects their inability to disburse funds to the private sector. The prevailing high interest rate of 13.25pc has created serious problems for domestic investors as they find it difficult to pay back high borrowing costs.



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## INTERNATIONAL SCENARIO

### World Bank Sees Uptick in Global Growth – Warns of Trade Risks

The World Bank says the global economy should see a modest rebound in growth this year. But the 189-nation lending institution is cautioning that a number of risks could upend its forecast, including the possibility of renewed trade hostilities between the world's two biggest economies, the United States and China. In an updated economic outlook released on January 8, the World Bank forecast the global economy will grow 2.5pc this year, up only slightly from 2.4pc growth in 2019. That had been the weakest performance since the 2008 financial crisis and a significant slowdown from growth rates above 3pc in 2017 and 2018. Downside risks persist. The recovery is fragile, said World Bank Vice President Ceyla Pazarbasioglu. Uncertainty has weighed on confidence, trade and investment which are all critical for growth. For the United States, the World Bank sees gross domestic product growth slowing from 2.3pc in 2019 to 1.8pc in 2020 and then slowing further to 1.7pc in both 2021 and 2022.

### Saudi ARAMCO Raises IPO to Record \$29.4 bn Through Green Shoe Option

State-owned oil company Saudi ARAMCO said recently that it has exercised its "green shoe option" to sell an additional 450 mn shares, raising the size of its initial public offering (IPO) to a record \$29.4 bn. ARAMCO initially raised a then-record \$25.6 bn in its IPO in December by selling 3 bn shares at 32 riyals (\$8.53) but indicated it may sell additional shares through the over-allotment of shares. A green shoe option, or over-allotment, allows companies to issue more shares in an IPO, when there is greater demand from participants during the initial offering.

### Jack Ma, Grab Eye Singapore Digital Bank Battle

Singapore is opening up its banking industry to digital lenders in a reform that could shake up the sector across Southeast Asia, with Chinese billionaire Jack Ma and ride-hailer Grab among those seeking licenses. Traditional

banks are being challenged by a new generation of online-only competitors that can offer better savings and borrowing rates, as they do not need to spend money on overheads such as physical branches. The introduction of digital lenders into the Singaporean market heralds the biggest liberalization of the financial hub's banking sector for two decades, and follows similar moves in the United States, Britain, Japan and Hong Kong, among others. With most adults in the city already having access to financial services, firms awarded licenses are likely to use the city-state as a gateway to the wider region, where many consumers still lack bank accounts. Singapore is the launch pad for Southeast Asia. An eclectic group of 21 applicants are vying for five digital banking licenses, Singapore's central bank and financial regulator said this month.

### EU Trade Chief Heads to Washington

The European Union's top trade official headed to Washington recently on a sensitive mission to mend ties with the United States and end several years of protectionist battles. Trade commissioner Phil Hogan's most urgent task will be to defuse a row over a French digital tax that Washington has pledged to avenge by imposing duties on \$2.4 bn of French goods. EU-US trade relations have deteriorated since President Trump came to power three years ago and declared a war against the yawning trade deficit with Europe. "The trip will be an opportunity to find common ground and hopefully potential solutions to some of the problems we have been discussing over the past weeks and months," a European Commission spokesperson said. (The U.S. goods and services trade deficit with the EU was \$109 bn in 2018. The United States had a \$807 bn in total (two ways) goods trade with European Union countries during 2018. Goods exports totaled \$319 bn; goods imports totaled \$488 bn).

### US, China Sign Momentous Trade Deal

After nearly two years of conflict between the world's two dominant economic powers, the United States and China signed a trade truce on January 15, letting businesses around the globe breathe a sigh of relief. US President Trump, who currently faces an impeachment trial and then a tough reelection bid later this year, called the agreement momentous. But tariffs on hundreds of billions of dollars in imports



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remain in place, leaving American consumers and businesses to foot the bill. The phase one agreement includes pledges from China to beef up purchases of American crops and other exports, provides protections for US technology, and new enforcement mechanisms.

## MANAGEMENT VIEWS

### How to Encourage Science-Driven Firms to Be Agile

Organizations in wildly different contexts and competitive situations have embraced agile methodology. But one area is notably absent from this trend: research and development in science-driven businesses. Here is how to join the agile science movement. Anticipate scepticism. To change any initial negative views of agile methodology, you will need the right approach for spreading and executing on the concepts. It helps to point to strong examples.

Emphasize the “why”. Rationales for an agile transformation include: reducing costs, increasing productivity, becoming more customer-centric by quickly adapting to feedback, speeding up decision-making, and so on.

Implement flexibly. Some routines and tools will be valuable and applicable, other less so depending on your context and business needs. Process-rigidity is the antithesis of agility. Agile R&D teams almost certainly will not look like agile software teams, and that is perfectly acceptable. (This tip is adapted from *Why Science-Driven Companies Should Use Agile*, by Alessandro Di Fiore, Kendra West and Andrea Segnalini-HBR.)

### 4 Steps When Asking for An Email Introduction

Requesting an email introduction through a contact is not without costs, especially for the person lending you her

network. You can help lessen this burden by including a forwardable email below your note to the person making the introduction. Here is how to write an effective forwardable email:

**Introduce yourself briefly:** Begin with a few lines detailing who you are and information that is pertinent to the request.

**State your motive:** Be specific about why you want to connect. “I am looking to meet an investor for my food business” is a clear motive.

**Do your homework:** Show that you have researched the third party.

**Make it easy:** Close the forwardable email suggesting an easy way to connect with you and meeting times. (This tip is adapted from *How to Ask for an Email Introduction*, by Ruchika Tulshyan-HBR).

## SNIPS

### Worst Nightmare

Korn Study, a management firm, reported that work-related stress caused 66pc of Americans to be deprived of sleep.

### Lack of Management

According to a Gallup study, only about 20pc of managers are considered to have fundamental management skills.

### Hot Spot

In 2018, more start-up investments were made in Nigeria than any other African country, the country reported nearly \$95 mn in business deals.

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