



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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PAKISTAN COMPENDIUM

Desalination Plant in Gwadar Inaugurated

A desalination plant installed at the Gwadar port by China Overseas Port Holding Company was inaugurated recently by federal Minister for Ports and Shipping. The plant will supply drinking water to Gwadar. The newly-installed desalination plant with the capacity of producing 254,000 gallons of clean drinking water had been completed by the Chinese firm in record time. The functioning of the desalination plant would reduce to some extent the shortage of drinking water in the city.

Door Open to Yuan-based Trade with China: SBP

The State Bank of Pakistan (SBP) made it clear that all arrangements for using Chinese yuan for bilateral trade as well as financing investment activity between Pakistan and China are already in place. On Dec 19, 2017, Minister for Planning and Development, Ahsan Iqbal, said that the government was considering a Chinese proposal to use renminbi (RMB or yuan) instead of the US dollar for payments in all bilateral trade between China and Pakistan.

Pakistan's Retail Market Will Expand by 2021

Pakistan has large number of young people, who may not have very deep pockets but they are ready to loosen their purse strings. Shopping malls and supermarkets are growing like weeds. Karachiites have seen the explosion over the past few years. Some giant malls have also opened in the past few years, such as Lucky One in Karachi, Packages Mall and Emporium Mall in Lahore. And apart from metropolises, the trend has seeped into second-tier cities as well. Citing a research by Euromonitor International, Bloomberg reported that Pakistan's retail market will expand by 50 pc by 2021 – or a growth of 8.2 pc a year through 2016-2021 – as disposable income has doubled since 2010. Shoppers are spending more and more amid better law and order, expanding economy and low inflation.

10 CPEC Projects may be Completed

The implementation is going on in the China-Pakistan Economic Corridor (CPEC) that saw comparatively first two years of an exciting full swing progress that delivered a host of Early Harvest Projects (EHP) or brought them up to an advanced stage.

2018 will be a year of stock taking and planning for the future of CPEC until 2030. This is because the project would be entering a new phase – from completion of energy projects and road construction the focus would shift to industrialization and long term financial arrangements between the two countries, having far reaching implications. Also the implementation would move from roads to railway network. Karachi-Peshawar Main Line (ML-1) worth \$8.2 bn and Karachi

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 months)

	Bid%	offer%
BEGINNING	5.96	6.21
ENDING	5.95	6.20
CHANGE	-0.01	-0.01

Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
BEGINNING	PKR 146.50	PKR 130.25	PKR 110.60
ENDING	PKR 149.75	PKR 133.29	PKR 110.40
CHANGE	+3.25	+3.04	-0.2

Pakistan Stock Exchange

	100 Index
BEGINNING	40,471
ENDING	42,523
CHANGE	+2052

Gold Rate

	(10 gm)
BEGINNING	PKR 47,571
ENDING	PKR 48,385
CHANGE	+814



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Circular Railway of \$3.5bn estimated cost would be two central areas of attention, provided their implementation milestones are firmed up and agreements are reached on costing and repayment pricing.

SHINGLES

Start-Ups and Fintech: E-commerce Gains Momentum

- Booming mobile internet users, a growing economy, better security situation and a lot of young people: these are fair grounds for optimism among start-up entrepreneurs and the IT industry at large.

- The number of cellular phone subscribers stands at 143.3 mn, around 70 pc of the country's population, according to PTA.

- The number of 3G and 4G users in Pakistan has also jumped nearly 30 pc to 47.2 mn over the last year, and it is only going to grow in 2018.

- These numbers mean exciting new apps and transforming brick-and-mortar businesses. Consumers are relying more and more on technology and want everything from paying bills, booking a car to buying groceries through their smartphones.

- E-commerce going up: One area that is particularly flourishing is e-commerce, whose market size is expected to touch \$1 bn by 2020. Chinese Alibaba Group Holding Ltd. signed an agreement with the Trade Development Authority in May to promote Pakistan's worldwide exports by small and medium enterprises through e-commerce. Around 1.2 mn transactions valuing Rs. 9.4 bn (\$84.9 mn) were processed through e-commerce in the previous fiscal year, according to the State Bank of Pakistan.

- By the end of June 2017, 571 merchants were offering their products online. Major online shopping websites include Daraz, Kaymu and Yayvo.

CPEC PROJECTS EXPECTED TO REACH COMPLETION IN 2018



- Gwadar Eastbay Expressway project
- Gwadar Freshwater Treatment facility



- Orange Line Mass Transit Project
- 39-km Havelian-Abbottabad-Mansehra
- four out of seven sections of Peshawar-Karachi (Multan-Bahawalpur-Sukkur-Sadiqabad)
- D.I. Khan to Hakla section of dual carriageway



- Port Qasim Coal fired project
- Three Gorges second and third wind power projects in Sindh
- One of the two 660MW units of China-Hub Coal Power Company
- cross-border optical fibre cable

On the industrial side, it would also be a great step forward if the countries are able to reach commercial agreements and begin physically working on three special industrial/economic zones, so far identified as Rashakai in Khyber Pakhtunkhwa, Dhabeji in Sindh and M-3 in Faisalabad, Punjab, to support manufacturing, job creation and export growth. In the energy sector on the other hand, Port Qasim Coal-fired power project of \$2 bn, being developed by Sinohydro Resource of China and Al-Mirqab Captial of Qatar with a generation capacity of 1320 MW, would achieve commercial operations by June 2018. The project had already been partially energized recently.

Agri-prospects

Agriculture growth in Calendar 2017 was the highest in five years. In a country where 60 pc of the population is linked directly or indirectly with the agrarian economy, a dollar gain in agriculture equals a \$2 gain in other sectors, according



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to Chief Economist of Planning Commission. The prospects of key crops and the livestock sector in 2018 are somewhat promising but structural issues remain and need increased attention.

Three key crops did well, showing an increase in production and a growth in yield, and the livestock sector also seems set to perform better than the year before.

Wheat, sugarcane and rice are all heading in the right direction, and there may be additional output and yield enhancement this year.

Wheat: The target for wheat output in the upcoming season is 26.46 mn tonnes, up from 25.75 mn tonnes in the previous season.

Experiments on winter wheat are being conducted in four high altitude regions. If encouraging results emerge, the country will begin growing this crop as well, though on a limited scale. The winter wheat crop is expected to offer a yield than spring wheat an added advantage

The rice harvest in 2017 is estimated to have reached 7.55 mn tonnes, according to officials who say that in 2018 production would cross eight mn tonnes even if the area under cultivation the remains the same.

Maize: The maize output that exceeded 6.1 mn tonnes for the first time in 2017.

Sugarcane: The sugarcane output has been growing steadily leading to surplus sugar production in the country and a crash in domestic prices. Sugar exports continue to bring in the much needed foreign exchange into the country.

But on sugarcane farms we can expect changes: a straight 10pc increase in cane production (to 89m plus from 81.4m tonnes in 2017).

Livestock: An increase in economic growth, the consequent rise in income levels in recent years and the proliferation of chains of super markets also continues to boost demand for dairy and milk products. The officials of Food Ministry

remain upbeat about growth in the livestock sector in 2018.

One way of looking at the high impact of grains and livestock sectors' performance could be the growth of the food and beverages segment of large-scale manufacturing. Here, an 11.49 pc expansion in output in FY17 topped by a further 14.24 pc growth in five months of this fiscal year indicates that things are moving in the right direction.

EXPECTED SOURCES OF ELECTRICITY GENERATION IN 2018

About 4,000MW of electricity generation is estimated will be added during 2018 through:

- Completion of three LNG projects of 1,200-1,300MW each (total 3,600MW) in Punjab
- The 1,400MW Tarbela fourth extension,
- The 969MW Neelum-Jhelum Hydropower project
- And Port Qasim Coal based project of 1,320MW among the major sources

A decade-high GDP growth, contained inflation, expansion in all key sectors, dividends of massive CPEC investment being cashed in and a visible improvement in security and power supply.

Auto Sector Rises up

By 2020 some expect the overall market size to go beyond

0.5m

This year is likely to put some extra room in the car market. The sales of locally assembled cars grew 2.5 pc to 185,781 in the previous fiscal year, they jumped more than 20 pc



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year-on-year to 87,273 in the five months through November. Besides, the country imported nearly 65,000 used cars in the 2016-17 fiscal year, a growth of more than 15 pc over the preceding fiscal year. Some expect the overall market size to go beyond half a million by 2020 from fewer than 300,000 units at present, thanks to the country's approximately 207 mn population, a rapidly growing economy and a vibrant middle class. The industry, dominated by automakers such as Honda, Toyota and Suzuki, is now opening up to other foreign players as well. French carmaker Renault SA and South Korea's Hyundai Motor Co and Kia Motors Corp are all setting up plants in Pakistan. German automaker Volkswagen* is also interested in investing in business ventures in Pakistan. Moreover, leading Chinese bike maker United Auto Motors is also gearing up to launch an 800cc this year. (*In 1934 Adolf Hitler directed for the production of a small vehicle capable of transporting people at 62 mph. it was then required that all German citizens to have access to The "People's Car" at 990 Reichsmark – \$396 in 1930s U.S. dollars.)

KALEIDOSCOPE

World's Giant Forest

The Amazon Forest, the most popular and well-known of all the forests in this list and the world, the Amazon Jungle or Amazonia is indeed a wonder to behold. It is a broadleaf forest and is spread through numerous countries such as Peru, Brazil Colombia, Bolivia, Ecuador, Surinam, Guyana and Venezuela. About 7,000,000 sq. km or 2,702,715 sq. miles large, this Rainforest is a mammoth in size. The Amazon is the biggest collection of biological diverse species. It is said that one out of every ten living species could be found in the Amazons. Thousands of mammals, birds, animals and insects have been scientifically registered here. The Amazons absorbs gig tons of Carbon dioxide gas. It is one of the most important factors of the World Climate. (One Gigaton is equal to one billion tons.)

INTERNATIONAL ARENA

Saudi, UAE introduce VAT in first for Gulf

Saudi Arabia and the United Arab Emirates introduced value-added tax recently, a first for the Gulf which has long prided itself on its tax-free, cradle-to-grave welfare system. Saudi Arabia has imposed a hike of up to 127 pc in petrol prices with immediate effect. They are the latest in series of measures introduced by Gulf oil producers over the past two years to boost revenues and cut spending as a persistent slump in world prices has led to ballooning budget deficits. The five percent sales tax applies to most goods and services and analysts project that the two governments could raise as much as \$21 bn in 2018, equivalent to 2.0 pc of GDP.

But it marks a major change for two super-rich countries where the mall is king. Dubai has long held an annual shopping festival to draw bargain hunters from around the world to its glitzy retail palaces. Saudi Arabia has deposited billions of dollars in special accounts to help needy citizens face the resulting rise in retail prices. The other four Gulf states — Bahrain, Kuwait, Oman and Qatar — are also committed to introducing VAT but have decided to delay the move until early in 2019. The hike in fuel duty in Saudi Arabia was the second in two years. But it still leaves petrol prices as some of the lowest in the world.

South Korea Exports Climb for 14th month, Wrap up Record 2017

Soaring global demand for memory chips and petrochemicals helped South Korea's exports surge 8.9 pc in December, lifting its 2017 shipments to the highest on record in value terms. Exports for the year as a whole jumped \$573.9 bn or 15.8 pc, data showed recently, making last year the best since relevant data began to be compiled in 1956. The government is expecting still-solid but more modest export growth of 4 pc this year. With the economy riding the global trade boom, South Korea's central bank raised interest rates for the first time in more than six years in November. The new three downside risks for South Korea are the won's strength, rising interest rates and oil prices.



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Cheques Go Digital in UK

UK's cheque clearing system has joined the digital age. The changes, part of the Government's Future Clearing Model, require all banks to use the new Image Clearing System (ICS) by June 2018. This will increase convenience and speed of transfer for customers, but experts have warned that the removal of traditional security features could also increase cheque fraud. The introduction of a similar system in the US, for example, reduced the cost of clearing by 70%, but the digital scanning of paper cheques increased the incidences of cheques being processed twice, both accidentally and fraudulently. A unique, algorithm generated number, lasered onto individual cheques, is one of the solutions already adopted by some UK banks. The code can only be decrypted using a key built into a bank's clearing process.

Eurozone Factory Growth Surges to Record

Eurozone factories ended 2017 growing at their fastest pace in more than two decades. With a similar business survey covering the United States forecast to be strong, the synchronized global growth that took hold last year looks set to continue based on the first major economic data releases of 2018.

That has added to expectations that the European Central Bank, which this month will halve its monthly bond purchases, will shutter the program later this year. The eurozone manufacturing boom gained further momentum in December, rounding off the best year on record and setting the scene for a strong start to 2018, according to Chris Williamson, chief business economist at IHS Markit, which compiles the surveys. The December eurozone final manufacturing Purchasing Managers' Index (PMI) was 60.6, matching an earlier preliminary reading, the highest since the survey began in June 1997. Any figure above 50 represents growth. The euro rose to a three-month high above \$1.20.

MANAGEMENT & INFOTECH CORNER

iPhones (2018)

Apple is also rumored to launch three or more iPhones this year. iPhone X (2018), iPhone 9 and 9+, iPhone SE 2 are some of the rumored smartphones Apple might be launching. It is also expected that Apple will cut down the prices of its iPhones. Apart from iPhone SE 2, the three iPhones will probably have the same notch design as the iPhone X. These phones will possibly launch in September like Apple does every time.

Bitcoin Warnings Grow More Strident as Singapore Urges 'Extreme Caution'

Global financial regulators are beginning to warn the public against the risks of investing in a market that many feel is in a speculative bubble, with Singapore's central bank on Tuesday urging "extreme caution" about buying cryptocurrencies. The staggering growth of bitcoin and other decentralized digital currencies with the market swelling from around \$17 bn at the start of January to well over \$600 bn now - has led to increasing concerns over what the fallout could be if the bubble were to suddenly burst.

There have also been worries that regulators have not been doing enough to protect consumers. Many, though, say investors must take responsibility and must not expect protection if they lose money because of the difficulties of regulating an opaque, complex market that has no centralized authority. The Monetary Authority of Singapore (MAS) said in an official statement recently it is "concerned that members of the public may be attracted to invest in cryptocurrencies, such as bitcoin, due to the recent escalation in their prices".

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