



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 13, Issue No. 02 | Date: January 12, 2018

## PAKISTAN COMPENDIUM

### BANKING SCENARIO

#### Deposits Folder

According to the weekly statement of position of all scheduled banks for the week ended December 22, 2017 deposits and other accounts of all scheduled banks stood at Rs. 11,964.134 bn after a 1.05 pc increase over the preceding week's figure of Rs 11,839.149 bn. Compared with last year's corresponding figure of Rs. 10,663.648 bn, the current week's figure was higher by 12.20 pc.

Deposits and other accounts of all commercial banks stood at Rs. 11,884.263 bn against preceding week's deposits of Rs. 11,756.964 bn, showing a rise of 1.08 pc. Deposits and other accounts of specialized banks stood at Rs. 79.871 bn, lower by 2.80 pc against previous week's figure of Rs. 82.18 bn.

#### SBP Globally-voted Best Bank for Islamic Finance

State Bank of Pakistan (SBP) has been voted as the best central bank in promoting Islamic Finance by a poll conducted by International Finance News (IFN), an arm of Red Money Agency, Malaysia.

SBP has also won this award in 2015. It is worth mentioning that in 2016, Pakistan was awarded Global Islamic Finance Award (Advocacy Award) by Edbiz Consulting Limited, UK. This recognizes the dedication and commitment of State Bank of Pakistan over the years for laying sound foundations for sustainable growth of Islamic Finance industry in the country. Islamic banking industry has shown significant growth since its re-launch in 2002; by end of September 2017, share of Islamic banking stood at 11.9 pc in terms of assets while in terms of deposits its share is 13.7 pc with a network of 2,368 branches across the country.

#### World Bank Projects 5.5 pc Growth Rate

The World Bank has projected 5.5 pc growth rate for Pakistan in the current fiscal year. This projection is premised on strong activity in construction, partly sourced to the projects under China Pakistan Economic Corridor (CPEC), recovery in agricultural production and a robust domestic demand supported by enhanced credit and investment.

The disbursements for CPEC projects for the first six months of the current fiscal year were 25 pc of what was budgeted for the year. In other words, the government has so far released 42 bn rupees out of the total budgeted 187.3 bn rupees for CPEC projects. It is fair to assume that disbursement for non-CPEC Public Sector Development Program (PSDP) projects has also been made. Given that PSDP is a major engine of growth for the Pakistan economy this may have an impact on the growth rate.

### MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

#### KIBOR (6 months)

	Bid%	offer%
BEGINNING	5.95	6.20
ENDING	5.95	6.20
CHANGE	0	0

#### Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
BEGINNING	PKR 149.75	PKR 133.29	PKR 110.40
ENDING	PKR 149.85	PKR 133.27	PKR 110.60
CHANGE	+0.1	-0.02	+0.2

#### Pakistan Stock Exchange

	100 Index
BEGINNING	42,523
ENDING	42,933
CHANGE	+410

#### Gold Rate

	(10 gm)
BEGINNING	PKR 48,385
ENDING	PKR 49,371
CHANGE	+986



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Credit to the private sector has increased – a strong sign that investment is picking up. The rise in credit is not only being used for new investment or reinvestment in existing units but to meet the liquidity needs of several units.

## Remittances Grow

Overseas Pakistanis sent remittances amounting to \$9.7 bn in the first half of 2017-18, up 2.5 pc from the same period of the previous fiscal year, the State Bank of Pakistan (SBP) reported. Despite a wide gap in the dollar rates in open and banking markets, overseas Pakistanis preferred to send money mostly through the banking channel. This reflects their confidence in the government as well as banks operating in Pakistan. The open-market rate is Rs. 1.50 to Rs. 2 per dollar higher than the banking rate. This makes the illegal channel highly attractive for remitters. Yet few overseas workers used it to send money to Pakistan. Another encouraging development was the year-on-year increase in remittances in July-December 2017 compared to the negative growth of 1.9 pc in the similar period of the preceding year. Remittances from all important destinations, except Saudi Arabia, showed a positive growth. Inflows from the kingdom declined 7.5 pc during the period under review against a decline of 5.5 pc a year ago. Pakistan still enjoys good relations with the kingdom, but the government has failed to address the issue of layoffs with its Saudi counterpart. Despite tense relations with the United States, remittances from the country noted a growth of 9.2 pc to \$1.28 bn during the six months. Inflows from the United Kingdom recorded an increase of 23 pc to \$1.35 bn. In December 2017, remittances amounted to \$1.72 bn, up 9.3 pc from the preceding month and 8.7 pc from a year ago.

## Exports Register 15pc Growth in Pakistan

Exports grew nearly 15 pc year-on-year in December 2017, raising hopes about a revival in the overseas sales of Pakistani goods. The upward trend in exports will contribute towards bridging the deficit in current account, which is under pressure because of rising oil prices and growing imports of other fuels and machinery. In absolute terms, exports edged up to \$1.97 bn in December from \$1.72 bn a year ago, data released by the Pakistan Bureau of Statistics showed on Wednesday. In the first half of the current fiscal

**“October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February.”**

– Mark Twain

year, export proceeds recorded an annual growth of 11.24 pc to \$11 bn. Commerce secretary Younus Dagha said exports have been increasing since last June. They increased 12.3 pc and 14.8 pc in November and December, respectively. He said the premier's export package, realistic exchange rate and growing international demand will help maintain the growth momentum.

## 75 pc Foreign Investors Foresee Business Growth in Pakistan

Three quarters of foreign investors foresee continued growth in their businesses and plan to make further investments in Pakistan, according to the Perception and Investment Survey (November 2017) released by the Overseas Investors Chamber of Commerce and Industry (OICCI). The overall results of the survey reflect improved and positive sentiments of the members of the OICCI, who are leading foreign investors in the country. OICCI members also highlighted key concerns impeding fast growth in foreign direct investment (FDI), including a negative perception of the country against positive realities. The OICCI members – who collectively pay about one-third of total tax revenues and re-invest about \$2 bn annually – are positive about the opportunities and potential that the country offers and foresee economic expansion. Nearly 66 pc of the respondents indicated plans to make new investments in business and human capital. Around 85 pc of the respondents expect increased sales and 68 pc anticipate a rise in their profits in coming years.

## Poverty Reduction: Allocation of Resources

According to Poverty Reduction Strategy Report, the federal and four provincial governments spent Rs. 462.7 bn, up 10.4 pc or Rs. 44 bn on poverty reduction programs during July-September, 2017, compared with the expenditures made in the first quarter of the last fiscal year.



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## LIMELIGHT

### Global Wealth Report

• Credit Suisse: Pakistan's Wealth Inequality is the Lowest in South Asia. Data released by Credit Suisse with its Global Wealth Report 2017 shows that Pakistan is the most egalitarian nation in South Asia. It also confirms that the median wealth of Pakistani households is three times higher than that of households in India.

#### • Wealth Inequality:

Inequality is measured in terms of Gini index. It ranges from 0% for perfect equality (when everyone has the same wealth) to 100% for total inequality (when all of the wealth is owned by one person). On this scale, Pakistan's Gini index is 52.6%, Bangladesh's 57.9%, Sri Lanka's 66.5%, Nepal's 67.3%, China's 78.9% and India's 83%.

#### Household Wealth:

Here is per capita wealth data for India and Pakistan as of mid-2017, according to Credit Suisse Wealth Report 2017 released recently. Pakistan average wealth per adult: \$5,174 vs India \$5,976 (Wealth per adult in Pakistan grew from \$2,549 in 2000 to \$5,174 in 2017).

- Pakistan median wealth per adult: \$3,338 vs India \$1,295. Average household wealth in Pakistan is \$15,522 (3 adults) vs India \$14,940 (2.5 adults).
- Median household wealth in Pakistan is \$10,014 (3 adults) vs India \$3,237 (2.5 adults).
- Pakistan's total wealth is \$558 bn, 0.2 pc of world's wealth of \$280 tr, according to Credit Suisse's Global Wealth Report 2017.
- Global wealth grew faster in the last year than at any time since 2010. It is expected to touch \$341 tr by 2022.
- Adults in Pakistan account for 2.2pc of world's total adult population.
- Financial wealth per adult \$1,705.
- Non-financial wealth per adult \$3,647.
- Debt per adult \$179.

## INTERNATIONAL ARENA

### EU States Urged to Dig Deep for Bloc's Budget, Fill UK Gap

Top European Union officials are urging member countries to stump up more money to fund the EU's policy ambitions and fill a yawning budget gap after Britain leaves the bloc.

European Commission President Jean-Claude Juncker said recently that the EU and its members have to work 'to find the means to fill the gap left by a contributor of billions of euros'. The Commission estimates that Britain's departure will cut contributions by around 12 bn euros (\$14.4 bn) a year. Britain leaves the EU next year but has agreed to pay its budget share until 2020. Juncker said the EU's 2014-2020 budget, which totals some 1.09 trillion euros (\$1.31tr), is not enough to fund the bloc's growing ambitions in areas like defense, even with one less member.

'We don't have any more cash to finance any extras,' said Juncker, launching debate in Brussels on the EU's multi-annual spending plans after 2020. 'Even with a dose of flexibility we have attained the limits of the European Union budget.' He said that spending to run the world's biggest trading bloc 'costs the European taxpayer one cup of coffee a day, that's all. I think that Europe's worth more than one cup of coffee a day.'

Thrashing out Europe's long-term budget, set out in periods of at least five years, is often a long and arduous process. The Commission wants the plan wrapped up before elections to the European Parliament are held in May 2019 to ensure that positions on the spending project are not undermined by campaigning. EU Budget Commissioner Guenther Oettinger said half the short fall should be made up by spending cuts and streamlining in some sectors while the other half should come in the form of contributions from the remaining 27 EU countries.

But he ruled out any cuts to the EU's higher education scheme and its massive research program, saying that spending on youth and innovation must be preserved.



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## Battery-Powered Electric Plane Successfully Completes First Flight

We already knew that battery-powered and electric planes were in works. Recently, an electric aircraft has successfully completed its first flight in Australia. Electric cars and trucks are old news now, as the future is moving towards larger electric vehicles (EV) such as airplanes. Aircraft manufacturer Pipistrel manufactured a single-engine, two-seater electric airplane named 'Pipistrel Alpha Electro'. The test flight was conducted in Perth. The electric plane runs on two lithium-ion batteries, similar to those used in Tesla's EV. The batteries help function the plane for an hour along with 30 minutes of extra power in reserve. As for their entire lifetime, the batteries can provide almost 1,000 total flying hours for the plane. The plane can be fully charged within an hour with the help of a supercharger, reported Futurism.

## China's First Solar Highway

After successfully manufacturing solar roofs, cars and windows, China is now all set to open up the country's first solar highway that uses solar panels placed underneath the transparent concrete on roads to charge vehicles. China's 2 km stretched solar highway is located on the Jinan City Expressway, which is divided into three layers. One layer is made up of see-through concrete that contains a range of solar panels of two sizes underneath it as the second layer. The third layer lies underneath the solar panels that keep the panels away from the damp ground. The highway is expected to be durable enough to handle vehicles as large as a medium sized truck and also has a strong friction. Once the highway is entirely done, it would be connected to the power grid to provide electricity to the city.

## Chinese Bitcoin Mining Giant Expands Set-up

Chinese bitcoin mining giant Bitmain Technologies is expanding to Switzerland in a move that will be key to widening its reach, the group told a Swiss newspaper. Bitmain Switzerland was registered in Zug, Switzerland in late December according to commercial registry filings. Experts say China is one of the world's biggest sources of bitcoin mining, where miners solve complex mathematical puzzles with computers in order to be awarded virtual coins. But a government clampdown on electricity-intensive cryptocurrency mining could soon see that activity move elsewhere.

## Saudi Arabia Invites Bankers to Pitch for Aramco Listing Roles

Saudi Aramco has invited banks pitching for roles in its stock market listing, including Citi and Goldman Sachs, for meetings in the kingdom in the coming weeks to make their case, according to three banking sources familiar with the matter. The meetings are an indication that preparations for a 2018 initial public offering, which could be the biggest IPO in history, are progressing despite market speculation it could be delayed or even shelved. Executives from Citi, Goldman and Deutsche Bank, which are all bidding to be global coordinators for the share sale, are among the teams invited to present their pitches in person, said the three sources, including two bankers who expect to attend the meetings.

The talks will be held at the end of January or beginning of February in the Eastern Province city of Dhahran, where the state oil company is headquartered, they added. Two of the sources said the talks would involve members of the banks' equity capital markets teams, executives who would be directly involved in an IPO, rather than top management. Saudi Aramco, Deutsche Bank, Citi and Goldman Sachs all declined to comment. The stock market listing of the national champion is a central part of Crown Prince Mohammed bin Salman's reform drive aimed at restructuring the kingdom's economy and reducing its dependence on oil revenue.

## Denmark Generates 43 pc of Power from Wind

Denmark generated close to half of its electricity consumption from wind energy in 2017, setting a new world record as it aims to entirely phase out fossil fuels in its power sector, the country's energy and climate minister said recently. He added that the goal is to cover the windy country's entire electricity consumption with renewable energy, although the timing depends on technological advances. The level of electricity consumption supplied by wind power has set records in the Nordic country 9 out of the last 10 years, reaching 43.4 pc last year and surpassing the previous 2015 record of 42 pc.



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## China Issues Sweeping Guidelines to Push Yuan for Belt and Road Business

The People's Bank of China (PBC) has announced a raft of new measures to push a greater cross-border role for the yuan that aim to "contribute to opening up on all fronts".

The measures go far beyond yuan settlement of cross-border trade. In a notice posted on its website, the PBC lists five separate measures to be pursued. The list is reproduced below.

- First, all cross-border business allowed by the law to be settled with foreign exchange can also be settled with RMB by enterprises. Following the principle of serving the real economy and facilitating trade and investment, banks are encouraged to develop new financial products based on current cross-border RMB business policies, in order to improve their capacity in providing financial services, and meet market players' real and legitimate demands for cross-border RMB business.
- Second, this will make it easier for domestic individuals to remit their legitimate income from overseas, and vice versa.
- Third, to promote green development, the Notice proposes specific rules for cross-border RMB settlement on carbon emission trading by overseas investors.
- Fourth, direct RMB investments by overseas investors are made much easier. The Notice further optimizes relevant procedures, eliminates limitations on relevant account opening and payments, and clearly permits banks to provide relevant services to meet enterprises' actual demands following the three basic principles of doing business. The Notice requires banks to ensure the free remittance of RMB profits, dividends, and other investment returns of overseas investors.
- Fifth, the RMB funds raised by domestic enterprises through issuing bonds or shares overseas can be transferred back to China whenever necessary, thus simplifying the relevant procedures and daily operations of the enterprises.

## MANAGEMENT & INFOTECH CORNER

### Build Relationships by Listening to Employees

All too often, managers behave as if relationships are built at the office holiday party and other social events and are hindered by actually working. If the only way you build connections with your employees is by chitchatting, you'll either spend valuable time not working or overbook your calendar with social obligations. Instead of relying on long lunches or happy-hour drinks, build good relationships with your employees by making sure they feel heard: Get to know what your people are thinking. Solicit feedback from them. And make listening tangible. Showing people that you hear them is important not just for your direct reports but also for everyone who works for them.

(Adapted from 'Small Talk Is an Overrated Way to Build Relationships with Your Employees', by Kim Scott - HBR)

### Show Your Team What Motivates You

As a manager, one of your greatest concerns is how to motivate your employees to do their best work. But how often do you think about what makes you excited to come to work every day? Take a moment to check in with how you are feeling about your job. When do you feel proud of leading your team? What aspects of your role do you enjoy? How can you increase your enthusiasm for your position? Your employees notice whether you have a genuine connection to your work, so if your energy is flagging, theirs may, too. Reconnect with what you love about your job, and then share your positive attitude freely. Modelling engagement with and enthusiasm for your work is one of the best ways to inspire employees.

(Adapted from 'Motivating Employees Is Not About Carrots or Sticks', by Lisa Lai - HBR)

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