



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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PAKISTAN COMPENDIUM

BANKING SCENARIO

Deposits Folder

According to the weekly statement of position of all scheduled banks for the week ended December 29, 2017 deposits and other accounts of all scheduled banks stood at Rs. 12,361.806 bn after a 3.32 pc increase over the preceding week's figure of Rs. 11,964.134 bn. Compared with last year's corresponding figure of Rs. 11,202.886 bn, the current week's figure was higher by 10.34 pc.

Deposits and other accounts of all commercial banks stood at Rs. 12,281.221 bn against preceding week's deposits of Rs. 11,884.263 bn, showing a rise of 3.34 pc. Deposits and other accounts of specialized banks stood at Rs. 80.585 bn, higher by 0.89 pc against previous week's figure of Rs. 79.871 bn.

Credit Portfolio

Gross advances of all scheduled banks stood at Rs. 6,529.968 bn, higher by 2.83 pc over the preceding week's figure of Rs. 6,350.315 bn. Compared with last year's corresponding figure of Rs. 5,571.985 bn, current week's figure is higher by 17.20 pc. Advances by all commercial banks increased to Rs. 6,357.903 bn from previous week's Rs. 6,178.430 bn indicating a rise of 2.90 pc, whereas advances of specialized banks stood at Rs. 172.065 bn against previous week's Rs. 171.885 bn.

Investments Brief

Investments of all scheduled banks stood at Rs. 8,541.521 bn against preceding week's figure of Rs. 8,308.474 bn, higher by 2.80 pc. Compared to last year's corresponding figure of Rs. 7,233.328 bn, current week's figure is higher by 18.08 pc. Investments by all commercial banks stood at Rs. 8,460.687 bn, higher by 2.82 pc against preceding week's figure of Rs. 8,228.417 bn, whereas investment by all specialised banks stood at Rs. 80.834 bn against preceding week's figure of Rs. 80.057 bn.

State Bank Launches Systemic Risk Survey

State Bank of Pakistan recently launched Systemic Risk Survey (SRS) to gauge the views of market participants and experts about various existing and emerging risks, that potentially undermine stability of the financial system. 'The survey aims at evaluating the respondents' confidence in the stability of the financial system as a whole and banking system in particular,' said the SBP's statement. In pursuance of SBP Vision 2020, it has committed to strengthen its financial stability regime to identify and manage systemic risks arising from within and outside the

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 months)

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

Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
STARTING	PKR 149.85	PKR 133.27	PKR 110.60
ENDING	PKR 154.00	PKR 136.00	PKR 111.90
CHANGE	+4.15	+2.73	+1.3

Pakistan Stock Exchange

100 Index

STARTING	42,933
ENDING	44,178
CHANGE	+1245

Gold Rate

(10 gm)

STARTING	PKR 49,371
ENDING	PKR 48,857
CHANGE	-514



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country's financial system, said the Bank. The SRS participants will include senior executives of commercial banks, development finance institutions, microfinance banks, exchange companies, insurance companies, asset management companies, renowned academia and business/economy journalists.

It will be conducted twice a year and the findings of this survey will be used by SBP to strengthen its risk assessment of the financial system and take appropriate mitigating measures.

'This survey is a market intelligence tool, used by central banks around the world, whereby feedback from various market participants and experts regarding their risk perceptions and confidence in the stability of the financial system is sought,' said the SBP.

Russian Central Bank, SBP Sign MoU

The State Bank of Pakistan (SBP) has signed a memorandum of understanding (MoU) on bilateral central banking cooperation with the Central Bank of the Russian Federation (CBRF), a press release said recently. SBP Governor Tariq Bajwa visited the CBRF headquarters in Moscow on Jan 15. This was the first-ever visit of an SBP governor to the CBRF, it said. Mr Bajwa and CBRF Governor Elvira Nabiullina signed the document. The MoU aims at promoting cooperation between the two authorities primarily in disciplines of financial systems development, payment systems, financial infrastructure and financial institutions' supervision.

Foreign Direct Investment (FDI)

Foreign direct investment (FDI) amounted to \$1.38 bn in the first half of 2017-18, and inflows from China rose 2.4 times, the State Bank of Pakistan reported recently. Data showed the pattern of inflows significantly changed recently. China now dominates FDI with a share of more than two-thirds in total investments. Beijing emerged first as the largest trading partner of Islamabad and now it has become the top foreign investor. Inflows from countries other than China have come down drastically over the same period. FDI from China was \$969 mn during the six months, which constituted 70 pc of total inflows. In the

HIGHLIGHTS

- ≈ **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 SBP said.**
- ≈ **Exports grew nearly 15 pc year-on-year in December 2017, raising hopes about a revival.**
- ≈ **Auto sales charged on in December 2017, as car sales jumped 20 pc year-on-year to 103, 432 units in July-December, 2017.**
- ≈ **The People's Republic of China 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.**

same period of the preceding fiscal year, investment from China amounted to \$393 mn and constituted 27.6 pc of total inflows. The other country that invested more than \$100m in July-December was Malaysia. Its investment during the six months was \$117 mn against \$13.1 mn a year ago. Other significant investors were the United Kingdom, United States and Hungary, which invested \$77 mn, \$63 mn and \$48 mn, respectively.

Exports to EU Grow 6 pc

Pakistan's exports to the 28-member European Union (EU) posted a growth of nearly 6 pc in January-September 2017 on a year-on-year basis. Total export proceeds to these countries amounted to €5.07 bn during the period under review against €4.79 bn a year ago, according to EU official data.

Latest figures show an upward movement compared to the similar period in the preceding calendar year. Annual growth recorded in January-September 2016 was just 3.5 pc. The GSP+ scheme became effective on Jan 1, 2014 and will remain available for the next 10 years.



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A product-wise analysis shows large variations. For example, exports of garments and hosiery witnessed a growth of 90.9 pc to €2.05 bn during the period under review.

The second biggest export category was home textiles, which grew 72.4 pc to €1.3 bn. The share of these two products stood at 65 pc in January-September against 37.6 pc a year ago. The third biggest export category was cotton and intermediary goods of textiles, which increased 16.4 pc to €640.9 mn.

Exports of the articles of leather increased 6 pc to €254.7 mn while the rise in rice exports was 11.6 pc to €109.6 mn. Exports of sports goods (footballs) rose 41.8 pc to €102.7 mn while foreign sales of surgical goods grew 22.4 pc to €58.1 mn. There was a 21.1 pc increase in footwear exports to \$58.1 mn during the period under review.

Country-wise data shows that the highest growth of 37.8 pc came from the United Kingdom as its imports from Pakistan surged to €1.02 bn during the period under review. Exports to Germany were up 39 pc to €995.4 mn.

Both the UK and Germany have emerged as major export destinations for Pakistani goods under the GSP+ scheme. The increase in exports to the UK is an encouraging factor. However, exporters fear they will lose the UK market following Brexit. London, however, has assured Islamabad of no change in the post-Brexit scenario.

Number of Tax Return Filers Increase in FY18

The number of tax return filers has increased by 21.5 pc during the current fiscal year (2017-18) as against the filers of the last year, according to latest data. Up to December 31, 2017, as many as 1,158, 380 taxpayers filed their returns till December 31, 2017 compared to the filers of around 914,000 taxpayers during the same period of last year.

The refunds also witnessed increase 28 pc during the current year over the corresponding period of previous fiscal year. The government has issued returns to the tune of Rs. 58 bn during the current fiscal year as against Rs. 45 bn issued during last year, the data revealed.

Consumer Confidence at an All-time High

Consumer confidence reached an all-time high increasing by nine points in July-September 2017, according to the Nielsen Global Survey of Consumer Confidence and Spending Intentions. The survey data highlights a positive perception of job outlook, increasing from 47 pc in the second quarter to 57 pc in the third quarter.

The number of respondents optimistic about the state of their personal finances has gone up by two percentage points from the second quarter to 66 pc, resultantly immediate-spending intentions has reached 49 pc, compared to 46 pc in the second quarter 2017. 'The nine-point upsurge in Pakistan's consumer confidence score depicts an improving outlook for the country,' noted Quratulain Ibrahim, managing director, Nielsen Pakistan.

'Since Nielsen launched the survey, this has been the highest number reached to date. We can attribute the score to many different reasons, such as the growth of our agricultural sector, controlled inflation, strengthened power supply and most importantly the uplift in our job market. There has been an increase in large-scale manufacturing — notably the automotive industry.'

Pakistan is flourishing and is rated as one of the top growth markets in the Middle East and Africa region.

Although there has been a one percentage point dip in job security being the biggest concern over the next six months, it still remains the top concern amongst 21 pc of Pakistani consumers.

Consumers are spending more on vacations and technology in Q3, suggesting they have more disposable cash.

Established in 2005, the Nielsen Consumer Confidence Index is fielded quarterly in 63 countries to measure the perceptions of local job prospects, personal finances, immediate spending intentions and related economic issues of real consumers around the world. Consumer confidence levels above and below a baseline of 100 indicate degrees of optimism and pessimism, respectively.



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INTERNATIONAL ARENA

World's Largest Current Account Surplus

Germany's current account surplus was the world's largest in 2017, the Munich-based Ifo Institute for Economic Research said recently, unveiling a record high reading likely to renew criticism of the economic and fiscal policies in Europe's largest economy. The International Monetary Fund (IMF) and the European Commission have for years urged Germany to lift domestic demand and imports in order to reduce global economic imbalances and fuel global growth, including within the eurozone. Ifo said the German current account surplus — which measures the flow of goods, services and investments — was the world's largest for the second year running in 2017 at \$287 bn, followed by Japan with \$203 bn. Chancellor Angela Merkel has attributed this to private consumption becoming the main driver of growth. Merkel also pointed out that the German surplus is mainly a result of the interplay of supply and demand on global markets and that Berlin has only limited influence on other important factors such as the euro exchange rate and energy prices. In the first 11 months of last year, Germany's trade surplus in goods was 249 bn euros (\$304.85 bn) as exports continued to outstrip imports.

Euro Hits 3-year High

The euro rose to a three-year high against the dollar recently, fueled by growing economic optimism in the eurozone and expectations that the European Central Bank will tighten monetary policy. The currency's rise against a broadly weakened dollar has been particularly marked, with the eurozone's improving economic outlook spurring more investors to rebalance their portfolios towards the region. Speculators boosted net long positions in the euro to a record high in the week to Jan. 12, according to the latest futures data. Against a basket of currencies, the euro is at its highest since late 2014. The dollar has weakened as markets grow increasingly confident that a global recovery would outpace U.S. growth and prompt other major central banks led by the ECB to unwind its easy policy quicker than market expectations. Measured against a basket of currencies,

the dollar was down 0.5 pc on Monday last, its lowest since early 2015. 'There will be a correction [for the euro] at some point,' said Kit Jukes, London-based global strategist at Societe Generale. 'But as long as the data remains strong, the market is going to believe in the idea that there is more coming. That tapering is going to be brought forward. Jukes said that the market was repricing the euro to account for the perceived change in the ECB's monetary stance and, with fair value of the euro estimated at between \$1.25 and \$1.30, the single currency had further room to rise. The euro was up 0.5 pc at \$1.2258 after hitting a high of almost \$1.23, adding to gains made last week after the ECB said it could revisit its communication stance in early 2018. That heightened expectations policy-makers were preparing to reduce the stimulus program.

Eurozone Fiscal Rules

Leading economists from France and Germany recently called for new fiscal rules for the eurozone and the creation of an independent watchdog to help to make the single currency more resilient against crises in the future. In a 33-page paper, the economists warned that even if the single currency area was 'finally experiencing a robust recovery... after nearly a decade of stagnation', it 'remains fragile'. Germany and France are currently trying to inject new momentum into stalled EU reform efforts. And the economists 'blueprint for reform' is intended to bridge German demands for more fiscal discipline and France's insistence on more risk-sharing.

Europe's Central Banks Pile into Yuan

More central banks in Europe revealed plans on Tuesday to hold yuan as part of their foreign currency reserves, highlighting the Chinese currency's rise into an elite league of the world's major reserve currencies. The Bank of Spain said it was considering an investment in the yuan, the National Bank of Belgium said has already bought around 200 mn euros (\$244.5 mn) worth of the Chinese currency and Slovakia said it also bought an undisclosed amount of yuan. The moves come after the European Central Bank converted 500 mn euros worth of its US dollar reserves into the Chinese currency last year, signaling confidence in the yuan and likely encouraging others to make a similar move. In the latest report for the period to the end of September 2017, global



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central banks allocated the equivalent of \$107 bn towards the Chinese currency in their reserves, a 19 pc rise from the start of the year. The role of the yuan has increased steadily since the International Monetary Fund included the currency in its Special Drawing Right basket from October 2016, placing it into an elite group that includes the euro, the dollar, the Japanese yen and the British pound.

MANAGEMENT & INFOTECH CORNER

Don't Say 'Change Is Hard' When You're Asking People to Change

When a change initiative hits a roadblock, leaders often remind people that 'change is hard.' But that old saw can become a self-fulfilling prophecy. Momentary setbacks or delays can be viewed as the dead canary in the coal mine, and suddenly, employees disengage en masse. Instead, try flipping the script. In a University of Chicago study, researchers were able to change participants' mindsets by reminding them that most people improve with a little bit of effort. The results? Study participants were quicker to identify the upsides of change than the downsides. Instead of accepting that initiatives rarely succeed, remind yourself and your team that you have all been learning new skills and adapting to new environments for your entire lives. And every time you feel the impulse to say 'change is hard,' make a different claim, one that is every bit as accurate: Adaptation is the rule of human existence, not the exception. (Adapted from *Stop Using the Excuse 'Organizational Change Is Hard'*, by Nick Tasler-HBR)

To Find the Best Contractors, Look Beyond the Usual Suspects

If you are struggling to find qualified candidates for a short-term role, it may be time to expand your search. Do not assume that the job needs someone who has done the same type of work in your industry. If you are reviewing candidates for a project management role in real estate, for example,

don't rule out folks who hail from a health care background, as long as they have the requisite, or transferable, skills. And seek out candidates in markets where there is less competition for them. While you'll find the biggest supply of talent — and the highest demand — in New York City and San Francisco, some cities have a larger supply and lower demand, such as Los Angeles, Houston, Philadelphia, Denver and Washington. Despite what you might think, many contractors are willing to relocate, so do not look only in your market. (Adapted from *A Guide to Finding and Hiring the Best Contractors*, by Alyssa Merwin-HBR)

The Face of Facebook

In coming days, Facebook users will see fewer posts from publishers, businesses and celebrities they follow. Instead, Facebook wants people to see more stuff from friends, family and other people they are likely to have 'meaningful' conversations with something the company laments has been lost in the sea of videos, news stories (real and fake), and viral quizzes on which "Big Bang Theory" character you are. Here are some frequently asked questions about what users and businesses might expect from the changes. Why is Facebook doing this? CEO Mark Zuckerberg has been doing a bit of soul-searching about the negative effects his company may be having on society and its users' psyches. Now it's his personal goal for 2018 to fix the site and weed out hate, abuse, meddling by nation states, while also making it more 'meaningful' and less depressing for users. While he acknowledges that Facebook may never be completely free of malign influences, Zuckerberg says that the company currently makes 'too many errors enforcing our policies and preventing the misuse of our tools'. Facebook would much rather make changes on its own than have its hand forced by regulators or to see disillusioned users move on to other, newer platforms. How will it affect the company's business? Facebook's stock price dropped almost 6 pc on Friday morning before regaining some ground. That suggests investors take Facebook seriously when it says the move will likely make users spend less time on its service. Less time, of course, means fewer advertising eyeballs at any given time.

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