



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 13, Issue No. 08 | Date: February 23, 2018

PAKISTAN COMPENDIUM

BANKING SCENARIO

Deposits Folder

According to the weekly statement of position of all scheduled banks for the week ended Feb 2, 2018 deposits and other accounts of all scheduled banks stood at Rs. 11,947.396 bn after a 0.46 pc decrease over the preceding week's figure of Rs. 12,002.239 bn.

Credit Portfolio

Gross advances of all scheduled banks stood at Rs. 6,591.254 bn, higher by 0.53 pc over the preceding week's figure of Rs. 6,556.145 bn.

Investments Brief

Investments by all commercial banks stood at Rs. 7,802.459 bn, higher by 3.18 pc against preceding week's figure of Rs. 7,562.018 bn.

Textile Exports Jump 13 pc

The exports of value-added textile products posted a growth of 12.8 pc year-on-year to \$4.4 bn in the first seven months of 2017-18, the Pakistan Bureau of Statistics said recently. The export proceeds from the value-added sector rebounded after the textile division took some corrective measures for the speedy clearance of due refunds and early payments of cash export subsidies. Product-wise details show that exports of ready-made garments in the first seven months rose nearly 14 pc in value and 13pc in quantity while knitwear exports increased by 13.3 pc in value, and 3.3pc in quantity during the period under review. Bed-wear exports also rebounded, going up by 5.6 pc in value and 4 pc in quantity. The export proceeds of towels also recorded a modest growth of 1.01 pc in value and 5 pc in quantity during the duration considered.

EU Renews GSP+ Scheme for Two Years

The Generalised System of Preferences Plus (GSP+) scheme has passed smoothly through European Parliament's Committee on International Trade (CIT), enabling Pakistani exporters to enjoy preferential duties on exports for the next two years. The continuation of the scheme is an award for Islamabad's progress in enacting new laws and developing new institutions for implantation of 27 core conventions of GSP+, specially the National Action Plan for human rights.

Jul-Dec Bedwear Export Touches \$1.124 bn Mark

The country's bedwear export touched \$1.124 bn mark in July-Dec 2017, higher by 6.22 pc, official figures say. Increase in bed-wear export now stands at

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 months)

	Bid%	offer%
STARTING	6.17	6.42
ENDING	6.20	6.45
CHANGE	+0.03	+0.03

Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
STARTING	PKR 154.30	PKR 137.30	PKR 111.70
ENDING	PKR 154.80	PKR 136.80	PKR 111.90
CHANGE	+0.5	-0.5	+0.2

Pakistan Stock Exchange

100 Index

STARTING	43,627
ENDING	43,267
CHANGE	-360

Gold Rate

(10 gm)

STARTING	PKR 47,914
ENDING	PKR 48,300
CHANGE	+386



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\$65.787 mn in July-Dec 2017 from \$1.058 mn in July-Dec 2016, Pakistan Bureau of Statistics indicates. Bed wear export volume grew by 2.41 pc or 4295 metric tons to 182,374 metric tons in July-Dec 2017 from 178,079 metric tons in July-Dec 2016. In Dec 2016, bedwear export scaled up to \$178.987 mn from \$170.064 mn in Dec 2015, up by 4.07 pc or \$8.923 mn. In term of volume, bed-wear export surged by 7 pc or 1836 metric tons to 28,711 metric tons in Dec 2016 from 26,875 metric tons in Dec 2015.

Foreign Direct Investment Brief

There is an over 110 pc surge in Foreign Direct Investment (FDI) from China, overall FDI during the first seven months (July-Jan) of this fiscal year (FY18). China is the single largest contributor with some 67 pc share in overall FDI arrived during this fiscal year and the FDI from China has crossed one bn mark in July-Jan of FY18. Economists said that most of investment has been made by China under the CPEC and this trend is likely to continue in coming months. The State Bank of Pakistan said recently that FDI stood at \$1.488 bn during first seven months of FY18. During the period under review, the country received FDI inflows amounting to \$1.889 bn. The country-wise analysis showed that China is leading with \$1.003 bn foreign direct investment in Pakistan in July-Jan of this fiscal year against \$474 mn in the same period of last fiscal year, showing an increase of 111 pc or \$529 mn. Most of investment was arrived in power and construction under the ongoing CPEC. During the period under review, the vibrancy of Pakistan's telecom sector attracted an investment of over \$ 118 mn from Malaysia. The UK is on third place with \$94 mn FDI in Pakistan. Portfolio investment stood negative at \$34 mn in July-Jan of this fiscal year. However, during the period under review, foreign public investment in the country increased by 139 pc. Foreign public investment surged to \$2.451 bn in the first seven months of this fiscal year against \$1.024 bn in the corresponding period of last fiscal year, showing an increase of \$1.427 bn.

Positive Conditions Push Up Demand for Credit: SBP (BR18-2-2018)

The State Bank of Pakistan has observed that the positive changes in economic conditions have significantly contributed to increase in overall demand for credit. According to State

Bank of Pakistan's (SBP) Bank Lending Survey (BLS) for the second quarter of this fiscal year (Q2-FY18), issued recently, the overall demand for loans continued to expand over the last quarter and is expected to increase in the next quarter as well. However, as compared to previous survey in Q1-FY18 the numbers of people having positive views about credit conditions are higher in the survey during Q2-FY18. After receiving feedback from senior officers of 18 commercial banks, SBP has said that, the two main factors supporting the expansion in the credit demand has been the need of firms for inventories and working capital and improved economic conditions. In addition, fixed investment, seasonal increase in credit demand are the other factors identified by the survey respondents. The biggest positive change is in economic conditions, which is significantly contributing to increase in overall demand for credit. Interestingly, SBP said that the expansion in current credit demand is broad based as it has increased for agriculture, corporate, SME and consumers alike. The largest increase in demand from the last survey is witnessed in the corporate sector which bodes well for both economic growth and employment generation. According to SBP, the overall availability of fund has continued to expand in the last quarter and is expected to visibly increase for the next quarter.

Rice Exports Grow

Rice exports seem to be on course to hit the 4 mn-tonne annual target during this fiscal year, fetching \$2 bn in foreign exchange. During this fiscal year, Pakistan has managed to export more rice to traditional markets like Afghanistan, Kenya, Oman, Qatar, Saudi Arabia, Spain, Tanzania, Britain and the United States, according to senior officials of the Rice Exporters Association of Pakistan (REAP) and trade data based on banking transactions during the first half of this fiscal year. Exporters have also penetrated deeper into various less-explored markets like Benin, Bangladesh, Comoros, Guinea-Bissau, Kazakhstan, Madagascar, Russia, Senegal, Somalia, South Korea, Togo, Uganda and Ukraine, the officials say.

Exports of Services Grow

The country's exports of services posted a growth of nearly 5 pc in the first half of this fiscal year to \$ 2.6 bn



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year-on-year, the Pakistan Bureau of Statistics said recently. A growth of 3 pc was seen in services exports in December 2017 as it went up to \$471 mn year-on-year. Data showed that the export of services rebounded from a negative growth in December 2017. Last year, exports of services recorded a growth of 1.76 pc year-on-year to \$5.55 bn.

Long-term Islamic Financing Facility Launched

The State Bank of Pakistan (SBP) recently launched the much-awaited Islamic Long-Term Financing Facility (ILTFF) based on Modaraba for exporters with a maximum limit of Rs.1.5 bn. The central bank currently provides the Long Term Financing Facility (LTFF) through conventional banks for import of machinery. After five years of decline, exports registered a growth of 10.5 pc during the first half of this fiscal year as policymakers started searching more tools to boost exports. The SBP since 2008 has been offering LTFF for both imported and locally manufactured plant and machinery through commercial banks and development finance institutions (DFIs).

7.49 pc Increase in Cotton Production

The country managed to produce 7.49 pc more cotton this season (2017-18) over the corresponding period last year. In total, 11.485 mn bales were produced up to Feb 15 as against 10.685 mn bales in last season.

Bitcoin Survey Results: Almost 50 pc Believe Government Should Regulate Cryptocurrency

We asked our readers how they feel about cryptocurrencies. Here's what they said. The sudden jump in Bitcoin's value in the final months of 2017 has sparked global interest in the cryptocurrency as a potential vehicle of investment. In January this year, more than 1,500 Pakistani readers took a Dawn.com survey gauging views on the popular cryptocurrency, which recently saw an exponential surge to nearly \$ 20,000 on some exchanges before plunging as low as \$ 6,000 this month. The majority of respondents were between the ages of 25 and 40 (63.4 pc), while 26.2 pc were over 40-years-old. Slightly more than 10 pc of survey respondents were under 25 years of age. Over half the respondents 56.1 pc to be exact were Pakistanis currently residing in the country. The remainder were Pakistani expats (43.9pc). When asked whether they believe Bitcoin

is a passing fad, a majority of respondents seemed unsure about 24.8 pc or 382 respondents neither agreed nor disagreed with the statement. However, the respondents lying in the middle were followed closely by both those who strongly feel it is a fad and those who don't believe it to be a passing fascination. More than 20 pc strongly disagreed with the statement, and a similar number strongly agreed with it.

HIGHLIGHTS

- Remittances sent by overseas Pakistanis jumped by 3.55 pc to 11.4 bn in the first seven months of this fiscal year, with UK contributing most to growth, the SBP reports.
- Car Sales rose 13 pc year-on-year basis to 23,700 units in January, cumulatively, as many as 147,838 cars were sold in the first seven months of this fiscal year, a year-on-year growth of 29 pc.
- The Central Development Working Party clears a total of 24 development projects at a cost of around 200 bn.
- The SBP launches the long-awaited the Islamic Long-term Financing Facility based on Modaraba for exporters with a maximum limit of Rs. 1.5 bn.
- Foreign Direct Investment during the first seven months of this fiscal year amounted to \$ 1.488 bn.
- Service exports grew 5 pc year-on-year to \$ 2.6 bn in the first half of this fiscal year, according to the Pakistan Bureau of Statistics.
- From 2007 to 2016, Pakistan's exports to its neighbor went up 159 pc to \$1.59 bn while the imports from China ratcheted up by 229 pc to \$13.68 bn.
- National Savings has mobilized Rs. 622 bn in the last six months of CFY 2018.



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INTERNATIONAL ARENA

Indian Banks on Tenterhooks

The Indian banking sector was euphoric when the banking sector was lavished with as a 13 trn rupee (\$ 21bn) bail-out package, which was aimed at washing off the accumulated bad loans portfolio of the past. Besides a new bankruptcy law afforded them an upper hand in dealing with the obstinate loan defaulters. However, the very next week some grave events unfolded, which revealed the very fragile nature of the system which made the Indian banker plummet to utmost despair when it was discovered that India's three largest semi state-owned banks were grossly mismanaged. First the second-largest nationalized Bank: Punjab National Bank (PNB) was found investigating a fraud amounting to 114 bn rupees. Then the State Bank of India reported its first quarterly loss since 1999. As if, this was not enough, Bank of Baroda quickly shut down its South African operation due to doubtful business deals. The fraud at PNB is the most alarming and grave one. The bank admitted that employees in Mumbai had approved transactions that plunged PNB in the worst situation. The bad news had wiped out half the share-price gains of the 21 state-owned banks since the government's rescue plan was launched in October 2017. Lumped together, all the nationalized lenders are now worth less than HDFC Bank, a single private bank. All these incidents speak of lack of effective controls and lax monitoring.

China Remains Germany's Biggest Trading Partner in 2017

China was Germany's top trading partner again in 2017, steaming past the United States for the second consecutive year, official German data showed recently. The trade figures also showed that Germany exported less to Britain last year, a trend that trade association BGA said would continue as Britain prepares to leave the European Union. Germany's total trade with China rose to 186.6 bn euros (\$230 bn) last year, from 170.2 bn in 2016, according to the figures from the Federal Statistics Office. The United States, which was briefly Germany's biggest trading partner in 2015 when it usurped France, remained the biggest export market for German companies, however. The data highlights the importance of both China and the United States for Germany, Europe's largest economy.

Saudi Arabia Signs Deal with Ripple

Saudi Arabia's central bank has signed a deal with US-based Ripple to help banks in the kingdom settle payments using blockchain software, as Gulf regulators begin to explore new forms of financial technology. The pilot program is the first of its kind to be launched by a central bank, allowing banks in Saudi Arabia to use Ripple's software to instantly settle payments sent into and out of the country, the company said recently. This will allow Saudi banks to make faster, cheaper and more transparent cross-border transactions, Ripple said, adding that the central bank would provide training to Saudi banks interested in the program. Most regulators in the Gulf initially expressed scepticism about fintech and last year the Saudi central bank warned citizens against trading bitcoin because it was outside the bank's regulatory reach. But Bahrain, keen to boost its role as a regional financial center, has been exploring the use of digital currencies and in the last few months, regulators in some larger Gulf economies have followed suit. The Saudi central bank is working with the United Arab Emirates central bank to issue a digital currency that would be accepted in cross-border transactions between the two countries, UAE central bank governor said in December 2017.

Japan, Short of Workers, Eyes Hiking Optional Pension Age Beyond 70

Japan has okayed plans to let people choose to start drawing their state pensions beyond the age of 70 as it grapples with severe labor shortages, ballooning welfare costs and a shriveling tax base stemming from its greying population. The government said it would look to cement the proposals through legal changes after April 2020, adding that it would look at raising in stages the mandatory retirement age for some 3.4 mn civil servants to 65 from the current 60. Japanese people can currently choose to start receiving their pensions at any point between the ages of 60 and 70, with bigger monthly payments offered to those who do so after their 65th birthdays. The policies may offer clues to how countries from Germany and Italy to China and South Korea could deal with the challenges sparked by their own ageing societies, from a lack of workers to spiraling welfare spending. Japan has the world's highest life expectancy, while the number of births last year fell to their lowest since records began over a century ago. Its population will shrink to 88 mn from the



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current 127 mn in the next four decades, the government estimates.

Japan Exports Rise

Buoyant sales of cars and electronics led Japan's exports to a 14th straight month of growth in January but there are certain issues with the manufacturers, highlighting fears of the rising yen disrupting an export-led recovery. The trade data came on the heels of the Reuters Tankan survey that found Japanese manufacturers' confidence deteriorated, pointing to global stock market turmoil and the yen undermining business sentiment. Such variable indicators underscore the challenge facing the Bank of Japan's leadership trio – reappointed Governor Haruhiko Kuroda and two new deputies – as they work to stimulate the economy out of decades of stagnation.

MANAGEMENT & INFOTECH CORNER

Feedback: Should Focus on Behaviors

Busy sales managers tend to deliver a curt message to their reps: "Get better and sell more." This feedback may work for some salespeople, but not for most. Instead of asking your reps "What's closing this month, and how can we make those deals happen faster?", talk with them about the indicators that have historically led to sales, such as demos, web registrations, calls, or C-suite-level meetings. If you focus on the intention ("close deals"), you won't help them change their behavior. Feedback on indicators might sound like this: "You are behind peers in setting meetings with VP -level prospects, and we know those contacts increase our win rate substantially. Let us talk about the organization of your prospects and what we can do to get the right access." (Adapted from *Find the Right Metrics for Your Sales Team*, by Frank V. Cespedes and Bob Marsh-HBR)

Boston: A Center for Higher Education

There are 55 institutions of higher learning within the Boston metropolitan area.

Solve a Problem by Thinking About the Worst Possible Solution

If you need to come up with a new idea, stop trying to think of the best one. Instead, imagine the worst idea possible: What would be the wrong way to solve this problem? What do our customers absolutely not want? How could we make all of our stakeholders angry? Try to come up with ideas that would get you laughed at (or maybe even fired), and then work backward from there to find new ways of solving the problem. This process, called "wrong thinking" or "reverse thinking," is not always easy to do. You can start by trying to see the problem as a beginner would. What would someone who knows nothing about the context suggest? When you give yourself permission to have bad ideas, you often come up with the best ones. (Adapted from *To Come Up with a Good Idea, Start by Imagining the Worst Idea Possible*, by Ayse Birsal-HBR)

Facebook Losing Youth at Fast Pace in US

With mom, dad and grandma signing up in increasing numbers, Facebook is losing younger users in the United States at a faster pace than previously estimated, researchers revealed recently. A report by eMarketer said Snapchat is drawing youths away from Facebook at a quicker clip than Facebook-owned Instagram. Facebook is still growing in the US market, according to the research firm, mainly due to increase in usage by older age groups. The report is the latest to highlight Facebook's problem with attracting and keeping young people, who have long been a core user base for the world's biggest social network. The research firm said it expected the first-ever decline in the 18-24 age group in the US, a drop of 5.8 pc this year.

Work Interrupts Family Time

According to data compiled by the University of Chicago, almost half of American workers — 48 pc — say that work interferes with their family life.

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