



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 15, Issue No. 21 | Date: May 22, 2020

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

## PAKISTAN TIDINGS

### Monetary Policy Statement Summary

At its meeting on 15<sup>th</sup> May 2020, the Monetary Policy Committee (MPC) decided to reduce the policy rate by 100 basis points to 8pc. This decision reflected the MPC's view that the inflation outlook has improved further in light of the recent cut in domestic fuel prices. As a result, inflation could fall closer to the lower end of the previously announced ranges of 11-12pc this fiscal year and 7-9pc next fiscal year. The MPC highlighted that the coronavirus pandemic has created unique challenges for monetary policy due to its non-economic origin and the temporary disruption of economic activity required to combat it. While easier monetary policy can neither affect the rate of infection transmission nor prevent the near-term fall in economic activity due to lockdowns, it can provide liquidity support to households and businesses to help them through the ensuing temporary phase of economic disruption. In particular, the successive policy rate cuts and sizeable cheap loans provided through the SBP's enhanced refinancing facilities have helped maintain credit flows, bolster the cash flow of borrowers and support asset prices. This has contained the tightening of financial conditions that would otherwise have amplified the initial necessary contraction in activity.

### Banking Briefs

#### Deposits Folder

Deposits of all scheduled banks amounted to Rs. 15,022.944 bn as on May 8, 2020, when compared to the position on May 1, 2020, the same amounted to Rs. 15,111.996 bn, less by 0.58pc.

#### Credit Portfolio

Gross Advances of all scheduled banks amounted to Rs. 8,316.860 bn as on May 8, 2020, compared to May 1, 2020, the same stood at Rs. 8,280.449 bn, more by 0.44pc.

### \$ 371 mn WB Loans Signed for Agriculture, Social Sectors

Pakistan and the World Bank recently signed two loan agreements of \$ 371 mn to support projects in the agriculture and social sectors. The agreements were signed online by Ministry of Economic Affairs secretary Noor Ahmed on behalf of the federal government, while representatives of Punjab and Khyber Pakhtunkhwa signed the agreements on behalf of their governments. World Bank's country director Patchamuthu Illangovan signed the agreements on behalf of his organization. These include a \$ 200 mn Supporting Human Capital Accumulation in Punjab by Early Investment Project which aims to increase the utilization of quality health services and economic and social inclusion programs among poor and vulnerable

## MARKETS AT A GLANCE

Rates are taken till Thursday 4:00 pm

### MONETARY POLICY RATE

8pc | Effective from May 15, 2020

### KIBOR (6 MONTHS)

	Bid%	Offer%
STARTING	7.89	8.14
ENDING	7.64	7.89
CHANGE	-0.25	-0.25

### FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 188.00	PKR 171.00	PKR 158.50
ENDING	PKR 188.00	PKR 171.00	PKR 158.50
CHANGE	0	0	0

### PAKISTAN STOCK EXCHANGE

#### 100 Index

STARTING	34,008
ENDING	33,836
CHANGE	-172

### GOLD RATE

(10 gm)

STARTING	PKR 76,732
ENDING	PKR 76,732
CHANGE	0



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households in the select districts in the province. The total approved cost of the project is \$ 330 mn, including World Bank financing of \$ 200 mn. The project is targeted to strengthen the quality of primary healthcare services, introduce a conditional cash transfer program and support economic inclusion for young parents. The project is also envisaged to strengthen the quality of early childhood education and lower primary education and increase the efficiency and sustainability of Punjab's pro-poor initiatives.

## Rs. 442 bn Accord for Construction of Diamer-Bhasha Dam Signed

The government recently signed a Rs. 442 bn contract with a joint venture of China Power and Frontier Works Organization (FWO) for the construction of the Diamer-Bhasha Dam. The Chinese state-run firm holds 70pc and the FWO 30pc share in the consortium. The contract covers construction of a diversion system, main dam, access bridge and the 21MW Tangir hydropower project. The 8 mn acre feet (MAF) reservoir with 272-meter height will be the tallest roller compact concrete (RCC) Dam in the world. It will have a spillway, 14 gates and 5 outlets for flushing out silt. The diversion system involves two tunnels and a diversion canal — all three having 1 kilometer length each. The bridge — a box girder structure — under the contract will be constructed downstream of the dam structure while the 21MW power plant will be built to meet energy requirements of the project during construction.

## Labor, an Underrated Asset

The policy makers are trying to kick-start labor-intensive, primarily urban-based, economic activities to protect jobs and promote employment. The focus is on Small and Medium Enterprises (SMEs) and the construction industry, particularly on spurring building of houses and allied production facilities. SMEs employ about 80pc of the non-agricultural labor workforce. Roughly 30-35pc of the employment is directly or indirectly affiliated with the construction sector. Agriculture, which is also labor-intensive and provides nearly 40pc of the country's labor, is not at the moment on the coronavirus-related priority agenda. The country has exhibited the least degree of economic structural changes away from agriculture into industry and services both in terms of employment and value-addition, say labor economists.

## PAKISTAN'S MAJOR ECONOMIC INDICATORS

REAL SECTOR (GROWTH IN %)	FY 2018	FY 2019 <sub>p</sub>	FY 2020 <sub>τ</sub>	-
REAL GDP	5.5	3.3	3.0	-
CPI INFLATION (YoY%)	FY 2019 <sub>pa</sub>	JUL 19 - APR 20 <sub>pa</sub>	MAR 2020	APR 2020
NATIONAL	6.8	11.2	10.2	8.5
URBAN	7.1	10.7	9.3	7.7
RURAL	6.3	12.0	11.7	9.8
FOOD INFLATION-URBAN/RURAL	4.6/4.8	14.0/16.2	13.0/15.5	10.4/12.8
CURRENCY IN CIRCULATION (IN BILLION RUPEES)	FY 2018	FY 2019 <sub>p</sub>	1 JUL 19 - 8 MAY 2020	-
₹PROVISIONAL	476.513	562.210	1,180.201	-
₹A PERIOD AVERAGE	-	-	-	-
τ Target	-	-	-	-

Data Sources: PBS/SBP/PC



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## Textile Exports Plunge to 17-Year Low

Pakistan's textile and clothing exports declined by 64.5pc in April to \$ 403.834 mn year-on-year — the lowest level in almost 17 years — due to order cancellations and shipment delays amid pandemic-led global lockdowns, showed recent data released by the Pakistan Bureau of Statistics (PBS). A significant decline was seen in trade shipments since Mar 15, the date since coronavirus cases spiked in major export destinations especially in Europe and North America. Moreover, exports through the land routes were almost non-existent during the month as Iran, Afghanistan and Pakistan shut down their respective borders to contain the pandemic. Exports were expected to fall during the month of April as only a few buyers were honoring their import commitments with local manufacturers.

## Pakistan Retains Emerging Market Status

Pakistan managed to hold on to its position in the MSCI Emerging Market, belying fears of a downgrade to the 'Frontier Market' category. The May 2020 semi-annual index review was announced recently. It would be effective from June 1. Pakistan currently has three constituents in MSCI EM: Habib Bank, Oil and Gas Development Company and MCB Bank Ltd. There was no deletion or addition, which was in line with the market consensus. However, there were two additions and two deletions from Pakistan Small Cap Index: Pakistan Petroleum Ltd (PPL) and Mari Petroleum Ltd (Mari) were added to the index whereas Sui Northern Gas Pipelines Ltd (SNGPL) and Nishat Mills Ltd (NML) were deleted. Market strategists believed that the foreign passive funds (that have longer investment horizons against active funds) were likely to enhance their holding in PPL and Mari, while offloading SNGPL and NML. (Note: MSCI stands for Morgan Stanley Capital International).

A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain.

– Mark Twain

## INTERNATIONAL SCENARIO

### Huawei Says Survival at Stake After US Chip Restrictions

Huawei recently assailed the latest US move to cut it off from semiconductor suppliers as a "pernicious" attack that will put the Chinese technology giant in "survival" mode and sow chaos in the global technology sector. The Commerce Department had earlier said it was tightening sanctions on Huawei — seen by Washington as a security risk — to include denying it access to semiconductor designs developed using US software and technology. "The decision was arbitrary and pernicious and threatens to undermine the entire (technology) industry worldwide," Huawei said in a statement. Huawei has largely weathered an escalating 18-month campaign by the Trump administration to isolate it internationally.

### Uber Cutting 3,000 Jobs and Trimming Investment

Uber recently announced it is cutting a quarter of its global workforce and trimming investment to survive the financial hit to its business from the coronavirus pandemic. The San Francisco-based company is laying off about 3,000 people and stopping some investments unrelated to its core ride-share and delivery businesses, according to chief executive Dara Khosrowshahi. Overall staff cuts include layoffs earlier this month at Uber recruiting and customer support teams and are part of an overall reorganization keeping ride-share and Eats restaurant-meal delivery services priorities at the company.

### Macron, Merkel Agree 500 bn Euro Recovery Plan

France and Germany proposed recently a 500 bn Euro (\$542 bn) fund to finance the recovery of the European Union's economy from the devastation wrought by the coronavirus crisis. Putting aside past differences and seeking to prove that the Franco-German core of Europe remains intact, President Emmanuel Macron and Chancellor Angela Merkel announced the unprecedented package after talks by video conference. With the European



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economy facing its biggest challenge since World War II, Macron also acknowledged that the EU had fallen short in its initial response to the virus and needed to coordinate more closely on health.

## Over 300 Lawmakers Worldwide Urge IMF, WB to Cancel Poor Countries' Debt

Over 300 lawmakers from around the world recently urged the International Monetary Fund and World Bank to cancel the debt of the poorest countries in response to the coronavirus pandemic and to boost funding to avert a global economic meltdown. The appeal came in a letter delivered to the heads of the World Bank and the IMF, as well as US President and other world leaders, amid growing concern that the pandemic will devastate developing countries and emerging economies. They asked the institutions to respond in 15 days. Widespread shutdowns aimed at containing the virus are taking a huge toll on the global economy and especially poor countries with weak health systems, high debt levels and few resources to manage the dual health and economic crises. IMF Managing Director Kristalina Georgieva recently said the Fund was very likely to revise downward its forecast that global output would shrink by 3pc in 2020 and said developing countries would need more than \$ 2.5 tr in financing to weather the storm.

## World Economy to Shrink 3.2pc in 2020: UN

The world economy is projected to shrink by 3.2pc in 2020 after the coronavirus pandemic sharply restricted economic activity, increased uncertainty and sparked the worst recession since the depression, the United Nations said recently. A report by the UN Department of Economic and Social Affairs said there would likely only be a gradual recovery of lost output in 2021. In January, the department had projected world economy growth of between 1.8pc to 2.5pc this year. "The world economy is expected to lose nearly \$ 8.5 tr in output in 2020 and 2021, nearly wiping out the cumulative output gains of the previous four years," the report said. The UN report said the pandemic showed how economic and public health are inextricably linked and mutually reinforcing.

## MANAGEMENT VIEWS

### MANAGERIAL TIPS

#### Be Extra Nice to Your Colleagues Right Now

When you are under constant stress, it is not always easy to be patient and understanding with your co-workers. But being judgmental does not help anyone. How can you find and demonstrate empathy for your colleagues when you are emotionally depleted? First, accept that we are all coping with the coronavirus crisis differently. For example, you may find it helpful to pay close attention to the news, for example, while a colleague prefers to limit the amount of information he or she takes in. Also, be generous in your interpretations of others when they send a terse email or look grumpy on a video call. It is more than likely that his mood has nothing to do with you or work. Do your part by being honest about what you are feeling at the moment and clearly communicating your needs. And remember that your co-workers are likely suffering in ways that you do not see or necessarily understand. Do not try to compare suffering. Instead, lean into compassion, empathy and kindness.

(This tip is adapted from *What Your Co-Workers Need Right Now Is Compassion*, by Amy Gallo-HBR.)

### SNIPS

#### Pandemic Anxiety

According to a recent global survey of employees, 67pc of respondents reported feeling increased levels of stress since the coronavirus outbreak.

#### Shifting Priorities

Online orders for some food and pharmacy retailers have increased from 5pc of company sales to 40pc during the COVID-19 crisis.



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## Adapt Your Marketing Strategy

The coronavirus crisis has led to radical shifts in consumer attitudes and behaviors. How can you adjust your marketing strategy accordingly? For starters, you will need to change the tone of your messaging. Feel-good content that alleviates anxiety and promotes solidarity will help your brand meet the moment. Find ways your company can help respond to the crisis, such as donating to food banks, providing free products for medical personnel or continuing to pay employees while your doors are closed. People will remember brands for sincere acts of good in a time of crisis. Keep your finger on the pulse by closely observing conversations on social media, community sites and e-commerce pages and adapt your messaging accordingly. Finally, think hard about which marketing channels you are using. For example, with the spike in digital entertainment, you may want to put more dollars toward ad-supported video streaming and mobile gaming.

(This tip is adapted from *Brand Marketing Through the Coronavirus Crisis*, by Janet Balis-HBR.)

## Should That Item Really Be on Your To-Do List?

Not every project or task you take on requires your immediate attention. If you are feeling overwhelmed, ask yourself a few questions to help you prioritize your to-do list. First, why is this task necessary? If there is no clear answer, it is probably not urgent. Second, what would happen a month from now if you do not get this done? It is tempting to barrel through your list for the sake of crossing things off, but before you spend time on a task, visualize its future impact on you, your stakeholders and your business. If you do not see a long-term impact, consider passing. Third, are you the right person to do this task? If not, consider whether you can delegate to someone else. Finally, did you agree to take on this task for the right reasons? You may have told yourself, "people will think I am rude if I say no," or "my direct reports are too busy to do this." If you said yes for the wrong reasons, chances are you are the wrong person for the job.

(This tip is adapted from *If You're Overworked, Learn Which Tasks to Hand Off*, by Sabina Nawaz-HBR.)

## Break Up Your Day with Chores

When you are working from home, you may find yourself feeling distracted by your looming personal responsibilities. You do not have to push aside nagging thoughts such as, "I really should put in a load of laundry," or, "is not it time to walk the dog?" – you can use these impulses to your advantage. Physical chores may provide welcome relief after hours of video conferences and thought work and you can build them into your schedule. For example, if you are having trouble starting a slide deck, decide ahead of time that you will walk the dog as soon as you get the first three slides done. Weaving these responsibilities into your workday can help you feel more productive both personally and professionally, leaving you feeling more refreshed and energized for the days ahead.

(This tip is adapted from *Is It Even Possible to Focus on Anything Right Now?* by Maura Thomas-HBR.)

## Netflix Adds 15 mn Subscribers

Netflix is one of the rare companies benefiting from the global pandemic, which has kept billions of people at home with nothing to do but stream. But the question is how long can it last? Although much of Netflix's recent boom did not start until mid-March, when more people were forced to stay home to help curb the spread of the novel coronavirus, a series of popular, original shows and movies helped Netflix boost subscribers in its first quarter. Netflix added 15.8 mn subscribers, more than double the 7.2 mn that were expected – a growth of more than 22 pc year over year. Netflix now has 182 mn subscribers worldwide. The company also saw quarterly revenue of \$5.77 bn versus the \$5.76 bn estimated. A consistent stream of new originals gives Netflix a leg up over other streaming services. One of the biggest advantages Netflix has over its competitors ties directly into its release strategy; because full seasons of shows are available at once, Netflix has to have full seasons ready to go. That means TV shows it has in the pipeline for May, June and July are fully complete seasons, so Netflix does not have to worry about filming more episodes like networks do.

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