



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 13, Issue No. 25 | Date: June 22, 2018

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

PAKISTAN COMPENDIUM

BANKING SCENARIO

Deposits Folder

According to the weekly position for the week ended June 8, 2018, deposits of all scheduled banks stood at Rs. 12,278.628 bn after a 1.33pc decrease over the preceding week's figure of Rs.12,444.083 bn.

Credit Portfolio

Gross advances of all scheduled banks stood at Rs. 7,150.190 bn, higher by 0.25pc over the preceding week's figure of Rs.7,132.538 bn.

Investments Brief

Investments of all scheduled banks stood at Rs. 7,911.721 bn against preceding week's figure of Rs. 6,731.842 bn, increased by 17.53pc.

SECP Issues Anti-Money Laundering Regulations

The Securities and Exchange Commission of Pakistan (SECP) recently issued Anti-Money Laundering and Countering Financing of Terrorism Regulations, 2018, in compliance with Financial Action Task Force (FATF) recommendations, which are mandatory to adopt for Pakistan being a member of the Asia Pacific group on money laundering. The SECP has provided a single set of regulations for all the securities brokers, insurance companies, non-banking finance companies and modarabas with the aim to harmonize the AML and CFT regime.

World Bank to Help Build Modern Water, Power Infrastructure

The World Bank has agreed to provide \$565 mn to Pakistan to help build modern water and power infrastructure and remove supply bottlenecks on an urgent basis at a total cost of \$688 mn. Under the agreements, the World Bank will provide \$565 mn, including \$425 mn for the NTDC and \$140 mn for the Sindh government. The first loan of \$425 mn for the National Transmission Modernization (Phase-I) Project is designed to increase the capacity and reliability of selected segments of the national transmission system in the country and modernize key business processes of the NTDC.

Banks Told To Submit SME-Finance Plan In 20 Days

Despite massive training programs for the promotion of small and medium enterprise (SME) finance, the State Bank of Pakistan (SBP) said there is still a complete lack of awareness among bankers as well as SMEs about SBP's policy and related finance schemes. The central bank along with all previous governments and the Ministry of Finance have been emphasizing that SME is the backbone of the economy

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	6.75	7.00
ENDING	6.77	7.02
CHANGE	+0.02	+0.02

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 161.00	PKR 141.00	PKR 121.00
ENDING	PKR 162.00	PKR 142.00	PKR 124.00
CHANGE	+1.00	+1.00	+3.00

PAKISTAN STOCK EXCHANGE

100 Index

STARTING	43,680
ENDING	41,637
CHANGE	-2043

GOLD RATE

(10 gm)

STARTING	PKR 50,068
ENDING	PKR 50,925
CHANGE	+857



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and should be promoted as a top priority. The SBP has given banks 20 days to submit their plans and three months (July-Sep 2018) to execute them with concrete results. Banks are generally reluctant about SME-financing as their default rate is the highest. However, the SBP is keen to the sector growth and has come up with new policies. For 'Capacity Building and Awareness Creation', the SBP has a strategy to undertake 100 training programs and 150 awareness creation sessions per year, respectively.

Eid Spending Crosses the Trillion Mark

Shrugging off all concerns, Pakistanis celebrated Eid 2018 like never before. All across the country, despite successive heat waves, people thronged the market to boost the Eid economy by about 15pc; crossing the trillion-rupee mark. The rise in spending is attributed to a combination of economic, social and political factors. "A nation that can afford to spend Rs. 175 bn in the holy month for philanthropic giving, 2.4 mn citizens can approach the central bank to acquire new currency notes — the SBP has confirmed disbursing Rs. 350 bn worth of new notes generally used as a cash gift at the holy festival. The projection of Rs 1.1 tr as a volume of the Eid economy is an intelligent guess based on the data provided by the State Bank of Pakistan and the Federal Bureau of Statistics.

Reserves Rise by \$198 mn

The foreign exchange reserves of the State Bank of Pakistan (SBP) increased by \$198 mn during the week ended on June 14 to \$10.264 bn making the total reserves of the country as \$16.798 bn. The SBP noted that the forex holdings of the commercial banks had been increasing for more than a year and reached \$6.533 bn on June 14. The holdings of the commercial banks increased by \$1.275 bn, or 24pc, from June 2017 to June 2018.

Wheat Exports Surge to 1.1 mn Tonnes

Wheat exports swelled to 1.120 mn tonnes in July-May 2017-18 as against just 3,937 tonnes in the same period last year. Market players are hopeful that the target of 1.4 mn tonnes by sea route will be achieved by end of this fiscal year. Export earnings from wheat in the first 11 months of FY18 surged to \$222 mn compared to just \$1 mn in July-May period of 2016-17. Wheat is being exported to Bangladesh, Indonesia, Vietnam, Dubai, Muscat, Oman, etc. at a price of \$185-200 per tonne.

HIGHLIGHTS

- The Supreme Court restrains FBR and cellular companies from deducting withholding tax and other charges on mobile phone top-up cards till further orders.
- According to UNDP, Pakistan needs to build at least 13 dams having a storage capacity equivalent to the Kalabagh dam.
- Currently, Pakistan extracts 50 MAF of groundwater which is mainly used for irrigation.
- 7.2 mn acres of land are being irrigated with untreated wastewater in Pakistan.
- Total quantity of wastewater produced in Pakistan is 962, 335 mn gallons.
- 10 mn units is the housing shortage in Pakistan of which about 40pc is in urban areas. The gap continues to widen by roughly 350,000 units per year.
- The size of housing services and construction was US \$28 bn in 2016-2017, (PKR 2800 bn, which comes to 9.3pc of total GDP of Pakistan).
- The Securities and Exchange Commission of Pakistan (SECP) has introduced Employee's Contributory Funds (Investment in Listed Securities) Regulations 2018. The new regulations are aimed at improving safety regime for the employees contributing to various contributory funds.



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INTERNATIONAL ARENA

The Fortune 500 Ranking: America's Biggest Companies

TOP TEN COMPANIES IN TERMS OF REVENUES - RANK 2017

RANK 2017	COMPANY NAME	FIELD	REVENUES	% CHANGE FROM 2016
1.	WALMART – BENTONVILLE, ARKANSAS	RETAILING	US \$500,343 mn	3.0
2.	EXXON MOBIL - IRVING, TEXAS	ENERGY	US \$244,363 mn	17.4
3.	BERKSHIRE HATHAWAY – OMAHA, NEBRASKA	FINANCIALS	US \$242,137 mn	8.3
4.	APPLE - CUPERTINO, CALIFORNIA	TECHNOLOGY	US \$229,234 mn	6.3
5.	UNITEDHEALTH GROUP- MINNETONKA, MINNESOTA	HEALTH CARE	US \$201,159 mn	8.8
6.	MCKESSON – SAN FRANCISCO, CALIFORNIA	WHOLESALE	US \$198,533 mn	3.1
7.	CVS HEALTH – WOONSOCKET, RHODE ISLAND	HEALTH CARE	US \$184,765 mn	4.1
8.	AMAZON.COM - SEATTLE, WASHINGTON	RETAILING	US \$177,866 mn	30.8
9.	AT&T-DALLAS, TEXAS	TELECOMMUNICATIONS	US \$160,546 mn	(2.0)
10.	GENERAL MOTORS- DETROIT, MICHIGAN	MOTOR VEHICLES & PARTS	US \$157,311 mn	(5.5)

China's Tariffs on US Oil to Disrupt \$ 1 bn Business

China's threat to impose duties on US oil imports will hit a business that has soared in the last two years, and which is now worth almost \$1 bn per month. In an escalating spat over the United States' trade deficit with most of its major trading partners, including China, US President said last week he was pushing ahead with hefty tariffs on \$50 bn of Chinese imports, starting on July 6. China said it would retaliate by slapping duties on several American commodities, including oil.

Merkel, Macron Propose Eurozone Budget

The leaders of Germany and France agreed recently to create a eurozone budget they hope will boost investment and provide a safety mechanism for the 19 nations using the euro currency, and also to seek a European solution to migration issues. Merkel, who has been lukewarm on Macron's idea of a European budget, said they had agreed to use the European Stability Mechanism, or ESM, as a basis for establishing one. The ESM was established in 2012 to provide eurozone nations access to financial assistance in the event of crisis.



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Bank Exits Leave India Lacking Female Role Models

India's women bank bosses are disappearing. ICICI Bank said recently that its chief executive, Chanda Kochhar, would go on leave pending a probe over awarding loans. If she departs permanently from the \$28 bn lender, the sector would lose its third high-profile female bank CEO in just months. Her exit would follow Shikha Sharma who in December will step down after ten years atop Axis Bank. At the other end of the spectrum, Arundhati Bhattacharya retired as chief of State Bank of India last year after four solid years at the helm of the country's largest lender. Performance aside, it is a blow for diversity. There were only 24 women CEOs in the S&P BSE 500 index, according to a study published in June by Institutional Investor Advisory Services (IIAS). The presence of Bhattacharya, Kochhar and Sharma, along with female heads of the unlisted local operations of Morgan Stanley and Standard Chartered, made gender diversity look like less of a problem in financial services. However, top bankers were overwhelmingly male, too, even before the exodus. Things are better at the board level, with 13pc female representation as of March 2017 in the NIFTY 500, another important index, but a big improvement only came after regulators required listed companies to have at least one women director.

Brazil, India Corporate Debt Most Vulnerable to Rate Hikes: McKinsey

A 200-basis-point increase in interest rates could cause a sharp rise in emerging-market corporate debt at risk of default, with Brazilian and Indian companies most vulnerable, a report from McKinsey Global Institute showed. Following a decade of loose monetary policy and historically low interest rates aimed at boosting economic growth after the 2008-9 financial crisis, central banks, including the US Federal Reserve and the European Central Bank, are either raising rates or signalling an end to accommodative policies. That is pushing many central banks in the developing world into raising rates as well. India, for example, raised rates this month for the first time since 2014.

Fed Raises Rates, Drops Crisis-Era Guidance

The Federal Reserve raised interest rates on June 13, 2018, a move that was widely expected but still marked a milestone in the US central bank's shift from policies used to battle the 2007-2009 financial crisis and recession. In raising its benchmark overnight lending rate, a quarter of a percentage point

to a range of between 1.75pc and 2pc, the Fed dropped its pledge to keep rates low enough to stimulate the economy "for some time" and signalled it would tolerate above-target inflation at least through 2020. The Fed has raised rates seven times since late 2015 on the back of the economy's continuing expansion and solid job growth, rendering the language of its previous policy statements outdated. (The Federal Reserve System also known as the Federal Reserve or simply the Fed, is the central banking system of USA).

Paris is Now Europe's Favorite Investment Hub

An Ernst & Young survey shows Paris has overtaken London as Europe's most attractive destination for foreign investors for the first time since EY began such reports 15 years ago. The change in the continent's pecking order is a sign of the impact of both Brexit and the "Macron effect". The French capital was ranked No. 1 for foreign direct investment by 37pc of businesses, based on a survey of 502 companies and data from EY and IBM covering 2017. Britain as a whole remained Europe's top destination for foreign direct investment in 2017, with 1,205 of the 6,653 new FDI projects in Europe, ahead of Germany's 1,124 projects and France's 1,019 projects. But France's number was up 31pc in one year, while the number of investment into Britain was 6pc higher than in 2016, showing a slowdown in growth. This was the first time Paris has outdone London since the annual survey started in 2003. Berlin came third and Frankfurt fourth. "The UK is feeling the effect of Brexit," the report said.

Turkey's Economy Grows 7.4pc

Turkey's economy grew 7.4pc in the first quarter, official statistics showed recently in a reading. The figure, which beat the consensus forecast of 7.0pc growth, matches the figure for the full year of 2017. But economists said such high growth was not necessarily healthy with Turkey running double digit inflation and a bulging current account deficit, and predicted activity was set to slow in subsequent quarters after the elections. First quarter growth was driven by industry, construction and services as well as a rise in exports, official data published by the Turkish Statistics Institute (TUIK) showed. Meanwhile, household final consumption increased by 11pc.



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MANAGEMENT & INFOTECH CORNER

Bizarre Notes: Rats Reportedly Destroy Rs. 12 Lakh at Assam ATM

A surprising incident in Assam has left many shocked. According to several reports, a State Bank of India (SBI) branch ATM in Assam's Tinsukia district bore the wrath of rats that left currency notes worth Rs. 12 lakh completely destroyed. Pictures of the shredded notes inside the ATM have left many stunned. Following a technical failure, the SBI ATM in Laipuli area - still containing cash - had been out of order since May 20, reports say. A day before, a private security firm had deposited Rs. 500 and Rs. 2,000 notes amounting Rs. 29.48 lakh, reports a newspaper.

Don't Ask 'What Do You Do?' When Networking

We have all been in the situation of meeting someone and having to find something to talk about. Many people break the silence with a standard question: "So, what do you do?" But talking about work, even at networking events, is not always the best way to build rapport. Instead, ask people about their hobbies, the charities they support, where they grew up, or even who their favorite superhero is. If steering away from work does not feel comfortable, you can ask a question like "What excites you right now?" or "What's the best thing that happened to you this year?" These kinds of queries invite a range of answers and let the other person talk whatever they want. Asking open-ended questions can lead to a more interesting conversation, and you might even make a new friend. (Adapted from *8 Questions to Ask Someone Other Than 'What Do You Do?'*, by David Burkus-HBR.)

Establish Norms for Teamwork

Is your team struggling to work well together? Perhaps a few people dominate your meetings, or team members constantly revisit past decisions. If so, create norms about how you'll work with one another. Start by looking at past team experiences to identify norms that have made the team more productive and

effective, and then break down the norms into specific behaviors. For example, a norm might be equal participation in meetings, and the behavior might be going around the room and soliciting input from everyone on key issues, starting with the person who is spoken the least. Discuss how team members will hold one another accountable if someone violates the norm. (Adapted from *How to Create Executive Team Norms — and Make Them Stick*, by Sabina Nawaz-HBR.)

Two Rules for Making Better Decisions

There are many ways to improve your decision-making, but two simple rules can be particularly helpful. First, be less certain — about every part of your decision-making process. Think choice A will lead to outcome B? It's probably less likely than you believe. Think outcome B is preferable to outcome C? You are probably too confident about that as well. What else would you think about if you were less sure that A causes B, or that B is preferable to C? Second, always ask yourself, "How often does that typically happen?" For example, if you were considering funding a start-up, you might ask: What percentage of start-ups fail? Accepting that you know less than you think you do is one of the best ways to start making better decisions. (Adapted from *3 Ways to Improve Your Decision Making*, by Walter Frick-HBR.)

TIDBITS

Asian-Americans and the Glass Ceiling

Bloomberg Businessweek reports that 27pc of US professionals working in New York banks are Asian-American, but only 11pc hold executive or senior manager roles.

Is Corporate Social Responsibility the Future?

A report from Bentley University found that over 80 pc of millennials believe creating positive change in the world is more significant than professional achievement.

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