



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 15, Issue No. 26 | Date: June 26, 2020

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

PAKISTAN TIDINGS

COVID-19 & SBP's Measures

From March 17 to June 24, 2020:

- Monetary Policy Rate Reduced by 100 basis points to 7pc effective June 25, 2020
- Loans Deferred – Rs. 543 bn
- Loans Restructured – Rs. 94 bn
- Loans Sanctioned for Wages – Rs. 107 bn
- Loans Sanctioned for Hospitals – Rs. 6 bn
- Loans Sanctioned for Investment – Rs. 8.8 bn
 - Bank Branches Open – 93pc
 - ATMS Available – 95pc

SBP to Finance Two Pilot Housing Projects

The State Bank of Pakistan (SBP) on June 23 set up a Steering Committee on Housing and Construction Finance to prepare for and implement sustainable market-led financing of housing projects and mortgages in order to promote the development of housing and construction industry in the country. Housing finance was a priority area for the central bank and the SBP will play a facilitative and supportive role for its promotion in the country, said SBP Governor Dr. Reza Baqir. At the meeting, the SBP and commercial banks announced their decision to work on two pilot projects: one on the government land and other on the private sector builders' models. The SBP is gearing up efforts for housing projects in the light of government's plan to build low-cost housing projects for low-income people.

Banks Performance Under SBP Rozgar Refinance Scheme

On April 10, 2020, State Bank of Pakistan introduced a refinance scheme to provide concessional credit at 3pc interest rate and generous repayment terms to any business that commits to not lay-off workers for 3 months. The goal of the scheme was to provide an incentive to businesses to protect jobs. On May 06, 2020 SBP complemented this scheme with a 40pc risk sharing facility (RSF) on first loss basis from the Government of Pakistan for utilization of this scheme for SMEs and small corporates (defined as business with annual turnover not exceeding Rs. 2 bn). As of June 12, 2020 there has been significant take up in the scheme. Banks have approved loan applications worth Rs. 107.5 bn of which Rs. 23.5 bn is for SMEs and small corporates under the risk sharing facility. Review of data indicates that Top Performing Five Banks together constitute more than 61pc share of overall approved financing amount under the Risk Sharing Facility (RSF) with JS Bank Ltd at the top, followed by HBL and Bank AL Habib. Review of performance of banks regarding acceptance ratio in terms of amount and number of applications approved shows that Top Performing Five Banks remain in the range between 65pc to 83pc and 70pc to 83pc respectively. Interestingly, Top Five Performing Banks are the same which are also top performers with respect to approved financing amount.

MARKETS AT A GLANCE

Rates are taken till Friday 1:00 pm

MONETARY POLICY RATE

7pc | Effective from June 25, 2020

KIBOR (6 MONTHS)

	Bid%	Offer%
STARTING	7.42	7.67
ENDING	7.44	7.69
CHANGE	+0.02	+0.02

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 209.00	PKR 185.50	PKR 165.30
ENDING	PKR 209.00	PKR 185.50	PKR 165.30
CHANGE	0	0	0

PAKISTAN STOCK EXCHANGE

100 Index

STARTING	33,438
ENDING	33,939
CHANGE	+501

GOLD RATE

(10 gm)

STARTING	PKR 84,791
ENDING	PKR 84,791
CHANGE	0



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PAKISTAN'S MAJOR ECONOMIC INDICATORS

REAL SECTOR (GROWTH IN %)	FY 2018	FY 2019 _p	FY 2020 _t	-----
REAL GDP	5.5	3.3	2.1	-----
CPI INFLATION (YoY%)	FY19	JUL 19 - MAY 20 _{pa}	APR 2020	MAY 2020
NATIONAL	6.8	10.9	8.5	8.2
URBAN	7.1	10.4	7.7	7.3
RURAL	6.3	11.8	9.8	9.7
FOOD INFLATION-URBAN	4.6	13.6	10.4	10.6
FOOD INFLATION-Rural	4.8	16.0	12.9	13.7
	FY18	FY19 _p	JUL 1, 2019 - 5 JUN, 2020	-----
CURRENCY IN CIRCULATION (IN BILLION RUPEES)	476.513	562.210	1,343.484	
_p - PROVISIONAL	-----	-----	-----	
_{pa} - PERIOD AVERAGE				
_t - Target				

Data Sources: SBP/PSB/PC

Top Performing Five Banks - Rs. in Millions:

JS Bank Ltd: 3,784 | Habib Bank Ltd: 3,625 | Bank AL Habib Ltd: 3,094 | Bank Alfalah Ltd: 2,256 | Askari Bank Ltd: 1,987.

Performance of top five banks over the last five weeks (May 15, 2020 - June 12, 2020) shows continuous increase in approved financing amount of each of these banks. A comparison of these five banks over the said period indicates that JS Bank Ltd maintained its top position throughout all these five weeks, however, Habib Bank Ltd improved its position to second from third since May 29, 2020. Bank Alfalah Ltd also improved its position.

Reserves Rise

Foreign exchange reserves of the State Bank of Pakistan increased by \$ 11 mn to \$ 10.107 bn during the week ended on June 12. Similarly, holdings of the commercial banks rose by \$ 59 mn to a seven-month high of \$ 6.668 bn. These jumps took the country's overall foreign liquid reserves to \$ 16.775 bn during the end of the week.

FBR Exempts Duties, Taxes on Remdesivir

The Federal Board of Revenue (FBR) recently exempted customs duty, additional customs duty and withholding tax on import of finished drug and injectable vial of Remdesivir 100mg used for COVID-19. The decision was implemented through the issuance of two notifications titled SR0557 and



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SR0558. Through another SR0556, the FBR exempted customs duty, additional customs and regulatory duty on import of 61 medical and testing equipment used for the COVID-19 till Sept 30. The government through SR0555 extended the exemption of sales tax on import and supply of these 61 items.

Pakistan Opens Border With Iran

The federal government recently opened the country's border with Iran at Taftan to resume trade activities. The border will now remain open seven days a week. With the development, the export of Pakistani mangoes to Iran is now set to resume. Separately, Pakistan International Airlines (PIA) has announced a drastic cut in freight charges for export of mangoes to the United Kingdom and rest of Europe. The Ministry of Interior took the decision on the opening of the border with Iran on the recommendation of the National Assembly's Special Committee on Agricultural Products which had warned that no delay would be tolerated in the opening of the border with Iran and trade facilitation. The national flag carrier, after discussing the issue with exporters and other stakeholders, had decided to drastically reduce freight charges for mango export up to \$ 2.5 per 500 kg for the UK and Europe whereas \$ 1 per 500 kg for other export destinations.

Pakistan's Fiscal Deficit to Widen in FY21

Economic shock and health crisis associated with COVID-19 will challenge Pakistan's ability to narrow the fiscal deficit to 7pc in the FY21, said Fitch Ratings recently. Fitch forecasts are more conservative than the government's. It estimates deficits of 9.5pc of GDP in FY20 and 8.2pc in FY21, pushing the public debt-to-GDP ratio up to 89pc of the GDP. The rating agency's commentary comes a week after the government announced the FY21 budget in which it projected a 28pc increase in tax revenues and expects to collect Rs. 4.963 tr. The agency said it is skeptical of the government's ability to meet these targets due to the prevalent economic slowdown and absence of new taxes in the budget. It said the targets will be challenging to achieve as the center plans to boost healthcare spending and support low-income households through the Ehsaas Program.

Manufacturing Plummets 41pc in April

The Large Scale Manufacturing (LSM) in April plunged 41.89pc year-on-year as almost all of the major manufacturing sectors posted negative growth, data released by the Pakistan Bureau of Statistics (PBS) showed recently. The textile, top contributing sector to the overall big industry output, fell 64.20pc, followed by food, beverages and tobacco, down 23.24pc, coke and petroleum products 51.50pc, iron and steel products 88.96pc and non-metallic mineral products 17.36pc. Of the 11 sectors under the Oil Companies Advisory Committee, 10 showed negative growth. The Ministry of Industries also reported across-the-board declines barring only the fertilizer sector, which witnessed 9.57pc growth during the month under review.

Pakistan's Debt Payments to be Rescheduled

Pakistan will reschedule \$ 2.41 bn worth of debt repayments in 2020 under the Debt Service Suspension Initiative (DSSI). The initiative will help the country enable an effective crisis response. Borrowers therefore commit to use freed-up resources to increase social, health, or economic spending in response to the [COVID-19] crisis, according to the World Bank statement, accompanying the release of the country specific data on the rescheduling. Pakistan is the second largest beneficiary of the initiative following Angola. According to the World Bank figures, the country's total debt servicing due in 2020 is \$ 8.974 bn, of which official multilateral stands at \$ 3.4 bn, official bilateral \$ 4.32 bn, non-official \$ 850 mn and \$ 362.5 mn is to bondholders. The \$ 2.41 bn rescheduling will decrease the country's debt service payments to \$ 6.53 bn during the year, translating into savings of 0.9pc of the GDP.

SNIPS

Green Business Pioneer

The European Investment Bank issued the world's first green bond, which helped fund renewable energy and other sustainable projects, in 2007.

Everyday Relief

On average, people laugh about 18 times a day.



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INTERNATIONAL SCENARIO

Diamonds Are Forever

For decades, shopping for uncut diamonds was a tightly scripted affair: First, persuade De Beers to add you to its list of handpicked customers. Then, 10 times a year, attend a week-long sale to buy exactly the amount De Beers offers you at whatever price it chooses. The system, which works more or less the same at Russian rival Alrosa PJSC, gave the two miners a tight grip on their market. With the coronavirus wreaking havoc through the industry, that control is now disintegrating. De Beers struggled to generate much interest from its customers to even look at this month's diamond sale, despite bending over backward to attract purchases, according to people familiar with the matter. At Alrosa, at least five buyers have broken from their long-term contracts because they cannot make money under the current terms, said the people, who asked not to be identified discussing private information. The lack of sales is likely to hit profits hard for the two biggest producers, although it probably will not affect the price of diamond jewelry in stores. The rough-diamond trading freeze is also creating billions of dollars of stock buildup for the miners that threatens to undermine an eventual recovery in the market.

Canned Meat Again in Fashion

Demand is booming across the globe. In the U.S., sales surged more than 70pc in the 15 weeks ended June 13. In the U.K., consumption of canned corned beef has taken off. Even in South Korea, where Spam is an old favorite, sales are expanding at the fastest pace in years. There is the obvious factor of income here. With millions thrown out of work in the last few months, consumers are looking for a way to cut back on grocery bills and they are trading in fresh meat for canned varieties. But there is also something deeper going on — a return to comfort food and nostalgia in troubled times. Canned corned beef will most likely be made from lower quality cuts of meat.

Lockdown Measures Hurting Existing Projects

Global Foreign Direct Investment (FDI) flows are forecast to decrease by up to 40pc in 2020 from 2019's value of \$ 1.54 tr, according to UNCTAD's *World Investment Report 2020*.

This would bring FDI below \$ 1 tr for the first time since 2005. In addition, FDI is projected to decrease by a further 5pc to 10pc in 2021 and to initiate a recovery in 2022, the report says.

China Says One-Fifth of Belt and Road Projects Seriously Affected

About 20pc of projects under China's ambitious Belt and Road Initiative (BRI) to link Asia, Europe and beyond have been "seriously affected" by the coronavirus pandemic, an official from China's Ministry of Foreign Affairs said recently. According to a survey by the ministry, about 40pc of projects have seen little adverse impact and another 30-40pc have been somewhat affected, said Wang Xiaolong, director-general of the ministry's International Economic Affairs Department, at a news briefing in Beijing. The results from the survey were better than expected and although some projects had been put on hold, China had not heard of any major projects being cancelled, he added. Over 100 countries have signed agreements with China to cooperate in BRI projects like railways, ports, highways and other infrastructure. According to a Refinitiv database, over 2,600 projects at a cost of \$ 3.7 tr are linked to the initiative. Restrictions on travel and the flow of goods across borders, as well as local measures to combat COVID-19, were the main reasons for the impacts on projects.

Russia's Central Bank Cuts Key Rate

Russia's central bank recently announced a 1.0-percentage-point cut to its key interest rate, taking it to 4.5pc, the lowest level in decades, in a bid to revive the economy after a virus shutdown. A global slump in demand during months of lockdown measures triggered by the coronavirus epidemic led to more profound than expected disinflationary factors, the bank said in a statement. The bank has abided by a conservative monetary policy for years, targeting 4pc inflation, but said that the rate decision was taken because this figure may dip significantly below the target next year. It said the negative effect of the economic lockdown has been more extended than previously assumed, hitting investment and incomes and increasing unemployment. The influence of the weaker Ruble and the episodes of increased demand for certain product groups in March has been exhausted.



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BMW Cuts Jobs, Ends Self-Driving Project with Mercedes

BMW will slash 6,000 jobs this year and freeze a major self-driving technology collaboration with rival Mercedes-Benz as the German luxury carmaker sees demand plunging because of the coronavirus pandemic. Further steps are needed to make the BMW Group more resilient to external influences and market fluctuations, according to its management bosses in a recent statement, adding that the company aims to achieve planned workforce reductions through attrition and voluntary agreements. The 6,000 positions make up a considerable chunk of BMW's more than 120,000 worldwide, with the job cuts coming as the industry battles a demand trough and production setbacks from the coronavirus pandemic. Meanwhile, BMW and Daimler-owned Mercedes are putting their cooperation on development of next-generation technology for automated driving on hold, according to a joint statement.

MANAGEMENT VIEWS

Steps to Take When Onboarding Remotely

Onboarding a new manager always requires planning ahead. But bringing on a new leader when you are all working remotely mandates even more thought and care. First, be crystal clear about expectations. Your new hire needs to quickly figure out how to create value in his role, so he will need to know what is expected of him. Since he would not be learning informally from those around them, schedule briefings on critical issues related to the role. Assign him a virtual onboarding buddy, who can orient him to the business, facilitate connections with colleagues, help him navigate processes and systems and provide insight on how things are done at your organization. And consider bringing in a coach. Given that you, your team and your new leader's team are likely dealing with the stresses of responding to the pandemic, a transition coach can be extra helpful, particularly if it is someone who understands the organization and the company culture. (This tip is

adapted from *Onboarding a New Leader Remotely*, by Mary Driscoll and Michael D. Watkins-HBR.)

Maintain Focus During Virtual Meetings

When you are in a virtual meeting, it is easy to find your mind drifting away especially if it is your fifth one of the day. To make sure you are as engaged as possible, take a few moments beforehand to understand the meeting's purpose and what value you can add. What is the most critical information you have and what do you want to contribute? Jot down these points. If you do not have a critical role to play, identify exactly what you hope to learn from the call. Coming prepared with specific questions will prime you to listen more carefully. If you speak during the meeting, acknowledge previous statements so people feel heard, but do not spend a lot of time rehashing earlier points. Add something new to move the conversation forward. And do not worry if you do zone out: Gently notice what distracted you and return your attention to the call. If you missed something, do not be afraid to ask a clarifying question. (This tip is adapted from *Stop Zoning Out in Zoom Meetings*, by Sarah Gershman.)

Set Up Virtual Office Hours for Your Team

Employees often rely on informal conversations with their boss to stay up to date on important decisions and information. If your team is newly remote, you can recreate these opportunities by setting up virtual office hours. This might be an hour each day during which you invite your team members to join you on a videoconference so you can address small questions or concerns. When one person joins, you can lock the meeting and have others wait in an online waiting room the virtual version of shutting the office door. (Of course, for more in-depth conversations, ask people to schedule a meeting.) Carving out dedicated time to deal with the daily flurry of small issues will help your team feel seen and heard, even from afar. (This tip is adapted from *How Managers Can Support Remote Employees*, by Sabina Nawaz.)

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Published by: The Institute of Bankers Pakistan, M.T. Khan Road, Karachi 74200, Pakistan

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DONATE FOR THE PRIME MINISTER'S COVID-19 PANDEMIC RELIEF FUND