



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 15, Issue No. 30 | Date: July 24, 2020

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

## PAKISTAN TIDINGS

### COVID-19 & Updates on SBP's Measures as of July 22, 2020

- Loans Deferred – Rs. 623 bn
- Loans Restructured – Rs. 152 bn
- Loans Sanctioned for Wages – Rs. 126 bn
- Loans Sanctioned for Hospitals – Rs. 6 bn
- Loans Sanctioned for Investment – Rs. 11.8 bn
  - Bank Branches Open – 93pc
  - ATMS Available – 95pc

### Foreign Direct Investment Jumps by 45pc in June

Foreign direct investment (FDI) soared by 45pc month-on-month to \$ 174.8 mn in June, the State Bank of Pakistan (SBP) reported recently. The increase in FDI for the entire fiscal year was even more pronounced as it surged 88pc to \$ 2.561 bn in 2019-20, from \$ 1.362 bn in FY19. The FDI started falling after the emergence of COVID-19 in March as lockdowns put brakes on economic activities. During that month, the country received \$ 278 mn and the inflows fell to \$ 133 mn in April and further to \$ 120 mn in May. Similarly, foreign private investment increased by 140pc to \$ 2.279 bn in FY20, compared to \$ 947 mn in the preceding year. The outflow from the portfolio investment was less than the previous year, clocking in at \$ 281 mn, as against \$ 415 mn. Further details show China played a key role in the improved FDI figures as its contribution stood at 33pc of the total inflows while the net FDI from the neighbor was \$ 844 mn — much higher than \$ 130.8 mn recorded in FY19. Another \$ 190.7 mn came from Hong Kong. Pakistan received the second biggest inflow of \$ 402 mn from Norway in FY20 versus \$ 115.9 mn the year before. On the other hand, despite getting hit by the coronavirus, the country achieved its major targets regarding foreign inflows except for the exports which fell in FY20.

### Govt. Denies Reducing Retirement Age

The federal government in Senate recently dismissed as untrue the reports that the retirement age of the government employees was being reduced from 60 to 55 years and monthly pension for retired government employees was being abolished. In the Senate session presided over by Chairman Sadiq Sanjrani, Minister of State for Parliamentary Affairs Ali Muhammad Khan said there is no truth to reports that the retirement age of government employees is being reduced from 60 to 55 years.

### Affordable Housing: An Uphill Virtuous Task

The incentivized Naya Pakistan Housing Project (NPHP) for building 100,000 homes offers both banks and construction industry an opportunity to benefit from the stimulus package with risks in real estate business and housing finance somewhat

## MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

### MONETARY POLICY RATE

**7pc** | Effective from June 25, 2020

### KIBOR (6 MONTHS)

Bid% Offer%

	Bid%	Offer%
STARTING	6.37	6.62
ENDING	6.44	6.69
CHANGE	+0.07	+0.07

### FOREIGN EXCHANGE RATES

GBP(£) EURO(€) USD(\$)

	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	37,330
ENDING	37,607
CHANGE	+277

### 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 <sub>p</sub>	FY 2020 <sub>p</sub>	-----
REAL GDP	5.5	3.3	-0.38*	-----
CPI INFLATION (YoY%)	FY19	JUL 19 - JUN 20	MAY 2020	JUNE 2020
NATIONAL	6.8	8.6	8.2	8.6
URBAN	7.1	7.6	7.3	7.6
RURAL	6.3	10.0	9.7	10.0
FOOD INFLATION-URBAN	4.6	12.9	10.6	12.9
FOOD INFLATION-Rural	4.8	15.2	13.7	15.2
	FY-end June 2020	FY19 <sub>p</sub>	JULY 1 - JULY 10, 2020	-----
CURRENCY IN CIRCULATION (IN BILLION RUPEES)	6,142.016	562.210	176.472	-----
<b>P</b> - PROVISIONAL	-----	-----	-----	-----
<b>PA</b> - PERIOD AVERAGE				
<b>T</b> - Target				

Data Sources: SBP/ PSB/ ESP\*

minimized in these hard times. The PTI's flagship housing scheme is a major initiative to shore up labor-intensive construction and allied industries, kick-start the economy, create jobs and provide affordable houses to low-and middle-income groups. The success of the project depends on the response of the private housing sector and commercial banks as well as current housing demand. The share in housing finance in Pakistan is a mere 0.2pc of the total loan portfolio as compared to 10pc in India and 90pc in Europe. The stated reasons for this are (a) first and foremost the absence of foreclosure laws (b) the want of clear land titles and (c) largely informal activity in the construction industry. Businesses hold the view that the formalization of the informal economy is only possible if high tax rates are cut

and the stifling investment and business regulatory regime is rationalized. (*Foreclosure is the legal process by which a lender attempts to recover the amount owed on a defaulted loan by taking ownership of and selling the mortgaged property. Typically, default is triggered when a borrower misses a specific number of monthly payments, but it can also happen when the borrower fails to meet other terms in the mortgage document.*)

### Fuel Imports Plunge 28pc in FY20

Petroleum imports declined 27.84pc in FY20 owing to a steep reduction in domestic demand as a result of lockdowns across the country. It is estimated that petroleum consumption since March 22 has fallen significantly since the full lockdown



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was enforced and private transport came to a standstill. Data compiled by the Pakistan Bureau of Statistics (PBS) showed the total import bill of fuel group dipped by 27.84pc year-on-year to \$ 10.42 bn. Of these, petroleum product imports declined by 24.54pc in value despite increasing by 3.7pc in quantity.

## AML Law: SBP's FMU Proposes Amendments

The Financial Monitoring Unit (FMU) of State Bank of Pakistan (SBP) has proposed dozens of amendments in Anti-Money Laundering Act, 2020 aimed at tightening laws to curb money laundering. Official sources said that Pakistan is required by Financial Action Task Force (FATF) to implement an action plan to bring its financial systems in compliance with international FATF standards on Anti Money Laundering / Countering the Financing of Terrorism (AML/ CFT), Asia Pacific Group, in its *Mutual Evaluation Report (MER)* on Pakistan has made recommendations on AML/ CFT. In the wake of these developments and after consultations with international consultants, Financial Monitoring Unit (FMU) has proposed amendments in the AML Act, 2010. These amendments would identify AML/ CFT regulatory authorities in Pakistan including the regulatory Authority for Designated Non-Financial Businesses and Professions (DNFBPs) and their powers. Functions and powers of AML/CFT regulatory authorities have been clearly defined with powers to issue licenses, regulations and to perform other ancillary functions to comply with the requirements of the provisions of the AML Act. Customers Due Diligence (CDD) process has been explained in detail in the proposed amendments.

## CAD Shrinks 78pc in 2019-20

The country's current account deficit in fiscal year 2019-20 fell by 78pc mainly on account of significant decline in imports, record high remittances and foreign direct investment during the period under review, latest data issued by the State Bank of Pakistan (SBP) showed recently. The current account deficit narrowed to \$ 2.966 bn in FY20, down 78.6pc compared to \$ 13.434 bn in the previous fiscal year. Meanwhile, in FY18, the current account deficit was \$ 20 bn. This massive decline also helped government improve its foreign exchange reserves through a sharp reduction in the import bill.

## SNIPS

### Voice Control on the Go

According to Voicebot.AI, 77 mn American adults use voice-controlled assistants in their cars and 45 mn use them at home.

## Big Industry Output Less by 25pc in May

The large-scale manufacturing (LSM) output tumbled by 24.8pc year-on-year in May, the Pakistan Bureau of Statistics (PBS) reported recently. It is believed that exchange rate depreciation, contractionary monetary and fiscal policies (before coronavirus outbreak) plunged the LSM in the FY20. Contraction in textile and food, beverages and tobacco, iron and steel, coke and petroleum products dampened the overall manufacturing in the country. Sector-wise, production of 11 items under the Oil Companies Advisory Committee went down by 20.87pc during MFY20, 36 items under the Ministry of Industries and Production by 11.78pc, while 65 reported by the provincial Bureaus of Statistics fell 4.4pc. LSM constitutes 80pc of the country's total manufacturing and accounts for nearly 10.7pc of the national output. In comparison, small-scale industry makes up for just 1.8pc of GDP and 13.7pc of the secondary sector.

## BANKING BRIEFS IN BN RS.

July 3, 2020	June 26, 2020
<b>DEPOSITS</b>	
16,361.560	16,229.036
<b>% PLUS / MINUS COMPARED TO PREVIOUS WEEK</b>	
+0.82	-----
<b>GROSS ADVANCES</b>	
8,154.813	8,202.328
<b>% PLUS / MINUS COMPARED TO PREVIOUS WEEK</b>	
-0.58	-----



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## INTERNATIONAL SCENARIO

### EU Agrees Landmark 750-bn-Euro Virus 'Marshall Plan'

EU leaders emerged from a marathon four-day and four-night summit recently to celebrate what they boasted was a historic rescue plan for economies left shattered by the coronavirus epidemic. The 750-billion-euro (\$ 858 bn) deal was sealed after intense negotiations that saw a threats of a French walkout and a Hungarian veto — and fierce opposition from the Netherlands and Austria to what they said was too generous a package. These were of course, difficult negotiations in very difficult times for all Europeans, said EU Council Chief Charles Michel, whose job was to guide the tortuous talks over more than 90 hours.

### Japan Puts Central Bank Digital Currencies on Policy Roadmap

Japan will look closer into whether to issue central bank digital currencies (CBDCs), the government said in its annual policy roadmap, a sign that Tokyo may be warming to the idea as the coronavirus heightens demand for cashless payments. In its first-ever reference to digital currency in the annual plan, the government urged the Bank of Japan (BoJ) to liaise with other countries to jointly examine its feasibility. The BoJ will coordinate with other countries to consider CBDCs by examining and verifying technological tests, according to the document, which serves as guidance for the government's long-term economic and fiscal policies. Facebook's efforts to launch its Libra cryptocurrency, stablecoin, have forced central banks to look more seriously into issuing their own digital currencies. China has been among countries leading in the drive toward issuing CBDCs, prompting some Japanese ruling party lawmakers to urge Tokyo to catch up. However, the government and the BoJ have been cautious about moving too quickly given the legal barriers and social disruptions it may cause in a country that has the most cash-loving population in the world.

### China's Fiscal Revenue Up 3.2pc

China's fiscal revenues rose 3.2pc in June from a year earlier, reversing a 10pc drop in May and returning to expansion for the first time this year, the finance ministry said recently, in

line with a recovery in the economy. Fiscal revenues have been gradually recovering in the second quarter after a deep decline in the first three months, ministry official Liu Jinyun told a briefing. China's economy returned to growth in the second quarter after a deep slump at the beginning of the year, but weak demand underscored the need for more policy support for the recovery after the shock of the novel coronavirus crisis. For the first half, fiscal revenues fell 10.8pc from a year earlier to 9.6176 tr Yuan, while fiscal spending fell 5.8pc to 11.6411 tr Yuan, the ministry said. Tax revenues fell 11.3pc in the first half, while non-tax revenues were down 8pc, it said. China has issued 720 Yuan (\$ 102.89 bn) in special treasury bonds as of July 16, accounting for 72pc of the planned issuance that could be completed by the end of July, Liu said.

### After Rail, India Set to Lose Iran Gas Project

After being dropped from a key rail project in southeastern Iran along the border with Afghanistan, India is also set to lose an ambitious gas field project in the country that had been in the pipeline for past 10 years. India's Ministry of External Affairs in a statement recently said Tehran would develop the Farzad-B gas field in the Persian Gulf region on its own and might engage India appropriately at a later stage. Last week, Masoud Karbasian, managing director of National Iranian Oil Company (NIOC), told reporters that a new operator had been roped in to develop the gas field, replacing India's ONGC. The field, estimated to possess 21.7 tr cubic feet of natural gas reserves, 12.8 tr cubic feet of natural gas and 212 mn barrels of gas condensates, was discovered in 2008 by a consortium of three Indian companies — ONGC, Oil India Limited and Indian Oil Corporation.

### Australia Unemployment Hits 22-year High

Australia's jobless rate edged up even though employment surged by a record in June, as more people searched for work encouraged by the re-opening of the economy from the coronavirus lockdown. Employment rose by a blockbuster 210,800 in June following hefty declines in April and May, Australian Bureau of Statistics (ABS) data showed recently. That handily beat forecasts for a gain of 112,000. Yet, the jobless rate still hit a 22-year high of 7.4pc because the surge in jobs growth was not enough to offset the increase in the number of people who went looking for work.



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## MANAGEMENT VIEWS

### Managerial Tips

#### Make Social Justice a Core Value

The standard corporate social responsibility (CSR) playbook is no longer working. Consumers, employees and other stakeholders want companies that see social good as a core mission, not just a marketing strategy. There are several things your organization can do to meet this challenge. First, identify a specific goal or vision for your company. Avoid pursuing pet projects of individual leaders. Instead, use a thoughtful and intentional process to identify which issues your company is currently contributing to and is best equipped to address. Form working groups with representatives from your various stakeholders to fully explore the impact of the company's actions. Done right, these working groups can inform your strategic priorities, help leaders make tough decisions in the public eye and allow your company to respond to pressing current events in ways that resonate. Have your working groups identify goals and metrics that are then communicated to your entire workforce.

(This tip is adapted from *We're Entering the Age of Corporate Social Justice*, by Lily Zheng-HBR.)

#### Adapt Performance Reviews to Reality

Even in the best of times, few managers actually enjoy conducting performance reviews. But during a pandemic, the task is astronomically harder. How do you evaluate employees fairly during such a challenging time? For starters, think about what you want to accomplish. As the crisis trudges on, you can focus on helping your employees build resilience and work through these difficult circumstances. Consider doing away with ratings in favor of a narrative assessment that provides employees with specific and helpful information about what they have done well and what they could improve. You also need to acknowledge the vastly different conditions in which your team members are operating. Some may be juggling client calls with

entertaining toddlers. Others may be overseeing projects while caring for elderly or sick relatives, or trying to work while struggling with feelings of isolation. You might need to gather different kinds of data while you are all working remotely.

(This tip is adapted from *How to Do Performance Reviews — Remotely*, by Rebecca Knight-HBR.)

### SNIPS

#### The High Cost of Poor Health

A new McKinsey report found that poor health — and the premature deaths and reduced productivity resulting from it — reduces global gross domestic product by an estimated 15pc every year.

#### Put Your Own Oxygen Mask on First

During this challenging historical moment, many of us have been providing unprecedented emotional support to the people in our lives. But you cannot help family, friends, colleagues or employees if you do not first take care of yourself. So, how can you do that? Start by checking in with yourself the same way you would with others. Ask yourself questions like: how am I really doing? Am I drinking, eating, sleeping or crying too much? What will help me combat anxiety? Am I staying connected to others? Then, develop a plan to make sure you are meeting your own needs. Keep to a routine and pencil in time for regular exercise or meditation — whatever works for you. Next, ask for help when you need it — if you do not, you might find yourself feeling resentful or holding grudges. And return the favor by making yourself available to others who need help.

(This tip is adapted from *To Take Care of Others, Start by Taking Care of Yourself*, by Whitney Johnson and Amy Humble-HBR.)

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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



# IBP ONLINE TRAININGS

FROM JULY 28 - 29, 2020

# JULY

**28 JULY  
TUESDAY**

10AM - 1PM

**TRAINING TITLE:** GRI and Sustainability Reporting Standards

**FACILITATOR:** Yawar Herekar

**FEE:** PKR 5,000/-

**28 JULY  
TUESDAY**

2PM - 5PM

**TRAINING TITLE:** SBP Inspection: Regulatory Compliance and Banks Operations

**FACILITATOR:** Atta Ullah Memon

**FEE:** PKR 5,000/-

**29 JULY  
WEDNESDAY**

2PM - 5PM

**TRAINING TITLE:** Framework for Risk Management in Outsourcing Arrangements by Financial Institutions

**FACILITATOR:** Sehba Ehsan

**FEE:** PKR 5,000/-

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