



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 13, Issue No. 29 | Date: July 20, 2018

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

PAKISTAN COMPENDIUM

BANKING SCENARIO

Deposits Folder

According to the weekly statement of position of all scheduled banks for the week ended July 6, 2018, deposits of all scheduled banks stood at Rs. 12,720.826 bn after a 2.62pc decrease over the preceding week's figure of Rs.13,602.787 bn.

Credit Portfolio

Gross advances of all scheduled banks stood at Rs. 7,293.331 bn, lower by 0.93pc over the preceding week's figure of Rs. 7,361.622 bn.

Investments Brief

Investments of all scheduled banks stood at Rs. 6,592.920 bn against preceding week's figure of Rs. 8,178.723 bn, less by 19.39pc.

SBP's Monetary Policy Statement July 14, 2018

The Monetary Policy Committee noted that the following factors are contributing to evolving economic challenges: (i) the multiplier-effect of a strong fiscal policy expansion during the second half of FY18 is likely to offset the contractionary impact of monetary tightening in the recent months on domestic demand; (ii) higher international oil prices have continued to inflate the import bill; (iii) rising inflation projections and the ensuing fall in real interest rates; and (iv) notable reduction in PKR and US interest rate differential. In order to curb aggregate demand and ensure near-term stability, the committee has decided to increase the policy rate by 100 bps to 7.50pc effective from 16 July 2018.

FDI Position: Chinese Share Grows

The foreign direct investment (FDI) stood at \$2.76 bn during 2017-18, showing an increase of 0.8pc over the preceding fiscal year. The share of Chinese investment (\$1,585 mn) increased to 57pc of the total inflows during the fiscal ended on June 30. The share of Chinese investment was 44pc of the total FDI in FY17. Second largest FDI was received from Britain which was around \$278 mn compared to \$215 mn in FY17. Hong Kong, Malaysia and USA were other significant investors with \$140 mn, \$127 mn and \$92 mn respectively. The sector-wise information provided by the State Bank showed that the biggest attraction was power sector as the inflows reached \$885 mn in FY18. In FY17, the inflow for the same sector was \$700 mn.

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

| KIBOR (6 MONTHS) | | |
|------------------|------|--------|
| | Bid% | offer% |
| STARTING | 6.82 | 7.07 |
| ENDING | 7.78 | 8.03 |
| CHANGE | 0.96 | 0.96 |

| FOREIGN EXCHANGE RATES | | | |
|------------------------|------------|------------|------------|
| | GBP (£) | EURO (€) | USD (\$) |
| STARTING | PKR 163.50 | PKR 143.50 | PKR 123.50 |
| ENDING | PKR 166.00 | PKR 148.00 | PKR 129.30 |
| CHANGE | 2.5 | 4.5 | 5.8 |

| PAKISTAN STOCK EXCHANGE | |
|-------------------------|--------|
| 100 Index | |
| STARTING | 40,271 |
| ENDING | 41,221 |
| CHANGE | 950 |

| GOLD RATE | |
|-----------|------------|
| (10 gm) | |
| STARTING | PKR 50,583 |
| ENDING | PKR 50,754 |
| CHANGE | 171 |



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Exports of Services Up 7pc

The export of services posted a growth of over 7pc in May to reach \$429.08 mn, the Pakistan Bureau of Statistics reported recently. The export of services rebounded in April after witnessing a negative growth in March. During the July-May period of this fiscal year, foreign sales declined 7.9pc to \$4.69 bn. The services sector has emerged as the main driver of economic growth with its share in GDP rising from 56pc in 2005-06 to 59.59pc in 2016-17. Its major sub-sectors are finance and insurance, transport and storage, wholesale and retail trade, public administration and defence.

SBP Initiates Low-Cost Housing Finance Policy

State Bank of Pakistan has initiated policy for financing of low-cost housing with the support and suggestions of stakeholders of this sector. In order to address this issue, State Bank in consultation with relevant stakeholders, has developed a policy for promotion of low-cost housing finance in Pakistan, said the SBP recently. The SBP believes that the housing sector in various economies serves as an engine of economic growth. It has the potential to generate employment, increase productivity, raise standard of living and alleviate poverty. The formulation of policy for low-cost housing is an attempt to resolve issues faced by the mortgage industry, said the SBP adding that the policy has been formulated keeping in view international best practices and local market conditions.

HIGHLIGHTS

- The SBP says that the economy posted a growth rate of 5.8pc for the year 2017-18 — the highest in the last 13 years but fell short of the 6pc target for the year.
- 55,225 people file returns declaring their Rs. 577 bn worth of foreign assets and Rs. 1,192 bn domestic assets under the tax amnesty scheme, new data released by the finance division shows.

AUTO LIMELIGHT

- Pak Suzuki Motor Company Limited (PSMCL) has finally decided to discontinue Mehran VX model from end of November, 2018 due to its thin demand as compared to the hot-selling VXR model.
- Sale and production of passenger cars, trucks, jeeps, farm tractors and machinery and three wheelers motorbikes registered a significant increase in ten months of FY 2017-18 despite increase in prices due to rupee's devaluation against the US dollar.
- According to data released by the Pakistan Automotive Manufacturers Association, the auto industry sold 201,134 passenger cars from July, 2017 to May, 2018 against 172,911 cars during corresponding period of last year.
- Toyota Corolla sold 47,866 passenger cars, Honda (City and Civic) sold 39,863 cars and Suzuki provided 4,564 Swift cars in the category of 1300 cc and above.
- There was an increase of 70pc in the sale of Wagon-R mainly owing to its much demand by the partners of Uber and Careem transport service provider companies.
- Sale of motorbikes and three wheelers in the country during first 10 months of current fiscal year (2017-18) increased by 16.18pc as compared to the sale during July-May 2016.
- The motorbikes sale rose to 17,44,463, units during July-May 2017-18 compared to sale of 15,01,393 units in the same period of previous year.
- Farm tractor manufacturers Fiat and Massey Ferguson both enjoyed great sales during past ten months.
- Massey Ferguson sold 40,349 units, about 9,000 tractors more than the last year's sale of 31,606 units.
- Fiat sold 26,334 tractors against last year's sale of 18,317 units of tractors.



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INTERNATIONAL ARENA

US Especially Vulnerable in Trade War: IMF's Lagarde

The US economy is "especially vulnerable" to damage from the burgeoning global trade war, which could save hundreds of billions of dollars off global GDP, IMF chief Christine Lagarde said recently. In remarks ahead of this weekend's meeting of Group of 20 finance ministers in Argentina, Lagarde said there were signs global growth could begin to decline and called on policymakers to prepare. The International Monetary Fund recently called the increasing trade restrictions "the greatest near-term threat" to the world economy. Through 2019, the IMF estimated the world economy should grow by 3.9pc but "this may be the high-water mark," Lagarde said in a blog post.

Pulses Import Plunge in India to Ripple Across Canadian, Australian Farms

Pulses imports to India, the world's biggest buyer, may fall to their lowest in nearly two decades after the government raised import taxes and restricted overseas purchases to bolster prices, impacting the plans of its global suppliers. The reduction in imports illustrates the government's steps to raise the prices of pulses, like peas and lentils, to reduce the payouts to farmers under its food subsidy scheme. Farmers in Canada, Australia and Russia that rely on Indian demand will likely intensify their cutbacks in pulses cultivation and continue to seek other markets in response to the curbs. The country imported 5.68 mn tonnes of pulses worth \$3 bn in the 2017/18 financial year.

EU, Japan Sign Major Trade Deal in 'Message Against Protectionism'

Japan and the EU signed a sweeping free trade deal recently, saying they were sending a clear message against protectionism, as Washington puts up barriers and threatens a trade war. The deal signed in Tokyo is the largest ever negotiated by the EU and creates a massive free trade zone, eliminating tariffs for everything from Japanese cars to French cheese. It also provides a stark counterpoint to "America First" protectionism, which has seen Washington impose trade tariffs on allies and rivals alike.

China, EU Must Overcome Ignorance Through B&R

Many countries are embracing the Belt and Road (B&R) initiative, from Asia to Europe, and even across South America. However, there are still many governments, institutions, companies, industries and other stakeholders in the international arena that do not understand the initiative or know what it is about. The ignorance over the B&R has been one of the major obstacles in achieving maximum capacity during the return journey of cargo trains from Europe to China. Usually the trains, developed as part of the B&R, travel full to Europe, but return to China with less frequency and fewer goods. The B&R is not only about trains, airports and infrastructure. It is much more. The initiative includes much of what China is doing outside its borders in terms of the economy, politics, development, infrastructure and trade. China has been focusing on its internal economy for the past decades, with great results. Although it has reached a considerable level of development, going abroad is necessary in order to make it sustainable. It is a consistent plan of internationalization.

China's Loans to Africa Leave Their Sovereignty Unaffected: Analysts

China's investment and loans in African countries are designed to help them improve basic infrastructure, increase productivity and achieve self-reliance, which analysts say differs from years of strings-attached aid from the West. Some Western media and politicians have recently created the phrase 'debtbook diplomacy' to accuse China of "miring nations in debt" and "undercutting their sovereignty." 'Debtbook diplomacy' is what they did to Africa for decades, but now China is actually helping African nations rid themselves of 'the debt trap' set by the West," said Wang Yiwei, director of the Institute of International Affairs at Renmin University of China in Beijing. The West left African countries with a heavy debt on projects and failed to support their sustainable development, or to increase productivity and help them realize self-reliance, Wang noted. "Western countries wanted Africa to become their raw materials supplier while maintaining their post-colonial influence over the continent. This prevented African countries from realizing their own industrialization", Wang said.



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Global Economic Expansion Has Hit Plateau, Warns IMF

The International Monetary Fund warned recently that global economic expansion has plateaued, increasing the risk of worse outcomes, although it also projected that the world will maintain a 3.9pc growth rate in the next two years. The IMF also emphasized the need for “a truly global effort to curtail corruption because it undermines faith in government in so many countries”. In the first of its twice-yearly economic forecasts, the IMF had warned in April that trade wars among nations will slow down the global growth by 2020, although it will continue to grow by 3.9pc in 2018 and 2019.

Three Rules of Work: Out of clutter find simplicity. From discord find harmony. In the middle of difficulty lies opportunity.

Albert Einstein

MANAGEMENT & INFOTECH CORNER

Use If-Then Thinking to Change Behaviour

We all have habits and behaviours we wish we could change. But just being aware of a bad habit is not enough. To truly fix it, start by considering your goal (say, “I want my team to know that I trust them”) and the obstacles you expect to face along the way (“I struggle to delegate”). Next, frame what you will do about the obstacles as if-then statements. To address the delegation obstacle, for example, you could tell yourself: “If I start to feel uncomfortable about not completing the work myself, then I will ask for updates on it in our next team meeting.” Eventually the link between the cue (“if”) and the action (“then”) will become strong enough to help you change how you react.

To Motivate, Offer a Change of Scenery

The midcareer crisis is a real phenomenon. Research has shown that people’s satisfaction bottoms out when they are in the middle of their careers. As a manager, you do not want to lose these valuable employees just because they fall into a slump. To keep them engaged, consider offering a change of scenery through remote work or even relocation. Remote work can let them change their personal lives without hurting their professional progress. Relocation to a different office could make sense for both the company and the employee if that office needs the employee’s skills. Of course, relocation is a big life change for the employee, so the company should be ready to assist with the move. (Adapted from *Many Employees Have a Midcareer Crisis. Here’s How Employers Can Help*, by Serenity Gibbons-HBR.)

Encourage and Reward Collaboration

There are a lot of reasons why someone might refuse help from a colleague. Some employees prefer to be self-reliant, others do not want to feel obligated to return the favor, and still others do not trust their co-workers’ motives. But these attitudes can increase employees’ risk of burnout and hinder social connections at work. As a manager, you can encourage and recognize collaborative efforts by calling attention to them and explaining how they contribute to the organization’s goals and mission. Be sure to demonstrate your willingness to accept help when you need it; employees are more likely to do it if they see their leaders doing it. And be careful not to send mixed messages: If employees who go it alone advance more quickly than those who give and receive support, people will pick up on that discrepancy — and they’ll go back to looking out for No. 1. (Adapted from *Why We Don’t Let Co-Workers Help Us, Even When We Need It*, by Mark C. Bolino and Phillip S. Thompson-HBR.)

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