



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 13, Issue No. 30 | Date: July 27, 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 13, 2018, deposits of all scheduled banks stood at Rs. 12,606.769 bn after a 0.90pc decrease over the preceding week's figure of Rs.12,720.826 bn.

Credit Portfolio

Gross advances of all scheduled banks stood at Rs. 7,300.008 bn, increased by 0.09pc over the preceding week's figure of Rs. 7,293.331 bn.

Investments Brief

Investments of all scheduled banks stood at Rs. 6,575.314 bn against preceding week's figure of Rs. 6,592.920 bn, less by 0.27pc.

SBP's Monetary Policy Statement

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. In order to curb aggregate demand and ensure near term stability, the Committee has decided to increase the policy rate to 7.50 pc effective from July 16, 2018.

Knitwear Export Grows by 15.71pc

The country's knitwear apparel textile grew to \$2.71 bn in 2017-18, up by 15.17pc. Posting the highest export share, the knitwear textile export scaled up by \$350 mn during the last fiscal year from \$2.36 bn in 2016-17, Pakistan Bureau of Statistics shows. Both the export of knitted bed-sheets and fabric, the apparel textile sector fetches \$3.50 bn alone, which is 25.86pc of the textile exports group and 15pc of the country's overall exports.

Import of Cellular Phones Rises by 19pc

Import of mobile phones witnessed a phenomenal growth of 19.44pc in the fiscal year 2017-18 as it amounted to \$847.654 mn compared to \$709.690 mn during the same period of 2016-17. According to market sources, the massive increase in mobile phones import was due to high demand. Mobile phone import remained \$87.717 mn in June 2018 with an increase of 20.91pc as compared to \$72.55 mn imports in June 2017, while it increased by 7.81pc compared to \$81.362 mn in May 2018, revealed the latest data released by Pakistan Bureau of Statistics (PBS).

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	7.78	8.03
ENDING	7.77	8.02
CHANGE	-0.01	-0.01

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 166.00	PKR 148.00	PKR 129.30
ENDING	PKR 166.50	PKR 148.00	PKR 128.40
CHANGE	0.5	0	-0.9

PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	41,221
ENDING	42,786
CHANGE	1565

GOLD RATE

	(10 gm)
STARTING	PKR 50,754
ENDING	PKR 51,054
CHANGE	300



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Federal Tax Revenue: Karachi's Contribution

That Karachi is the largest contributor to the federal tax revenue receipts is no news, for the city of the Quaid has been the big hand that feeds the exchequer of the country since its inception. Moreover, the next two cities are miles from where Karachi is placed. This city of teeming millions makes humongous contributions to the country's economy. According to a report, the country generates 86pc of its total federal tax revenue from its three major cities as Karachi contributes 55pc, Islamabad 16pc, and Lahore 15pc. This has been gleaned from State of Pakistan Cities (SPC), a report launched by the Ministry of Climate Change with the technical assistance of the United Nations Human Settlements Program (UN Habitat) recently. The report has presented the current state of development in the 10 largest cities of Pakistan and highlighted the state of economy, social service delivery, planning and development, housing, environment and heritage in the cities of Pakistan.

Non-Textile Exports Rise 22pc

Pakistan's exports of non-textile products posted a robust growth of nearly 22pc year-on-year in the outgoing fiscal year to \$9.69 bn. The impressive increase in non-textile products outpaced the traditional export basket of textile and clothing which went up 8.67pc year-on-year to \$13.53bn in 2017-18. In 2017-18, government extended cash support package to non-textile products, leather manufacturers, footwear, sports goods, surgical, engineering goods, furniture, meat and meat products, fish products and cutlery. Data show an increase of 108pc year-on-year in exports of petroleum products. Petroleum products, petroleum crude and naphtha led the increase in the sector's exports. Sports goods' exports went up by 7.8pc year-on-year during the year under review. Foreign sales of footballs were higher by 9.38pc due to huge exports as part of FIFA 2018. After a long time, exports of leather products rebounded and posted a growth of 6.64pc during this period. This was mainly led by sales of leather gloves, followed by garments. Footwear exports went up by

12.88pc on back of leather footwear, surgical goods and medical instruments by 11.55pc and engineering goods by 18.3pc during the year under review. Year-on-year exports of gur (jaggery) surged by 21.83pc, molasses 65.75pc, handicrafts 40.32pc, gems 34.97pc and jewellery 1.13pc.

HIGHLIGHTS

- According to census 2017, 75 mn people live in urban areas of Pakistan and 54pc of the total urban population inhabits 10 cities of the country.
- The report has ascertained that larger cities have seen enormous urban sprawl due to increase in population and change in land use in downtown as well as in their peripheries that are becoming extended part of cities.
- The situation therefore underscores the need for recalling the fact that in 1947, 82pc of Punjab was rural. Seventy years later, however, there is hardly any difference between rural and urban populations in the largest province of the country.
- The report also points out that the cities vary in terms of their size, economy, employment and tax revenues. Services and industry are the major employment sectors in Pakistani cities; the share of the service economy as a ratio is larger in cities than their share of services in the national economy.
- The country generates 95pc of its total federal tax revenue from its 10 major cities. The average urban per capita income among the 10 cities varies between Rs. 37,000 and Rs. 70,000.



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Wheat Exports

Around 21pc rupee devaluation against the dollar since December 2017 to date, coupled with world's prices and attractive subsidy, boosted wheat exports to a new peak of 1.189mn tonnes, fetching \$236mn in FY18, versus 3,937 tonnes earning just \$1mn in FY17. The average per tonne price stood at \$198 in 2017-18 against \$263 per tonne earned in the same period of FY17, stated figures released by Pakistan Bureau of Statistics. The government in December 2017 had allowed exports of 2mn tonnes of wheat and wheat products before June 30 to clear carry-over stocks as new crop finds way into the market. It has also been providing an export subsidy of \$120 per tonne by land and \$169 per tonne for sea routes. Out of the 2mn tonnes, exports from Punjab were planned at 1.5m tonnes with the remaining 500,000 tonnes from Sindh. Market players were quite optimistic of achieving wheat target of 1.4 mn tonnes by sea route.

Sugar Exports Surge

Sugar exports hit record 1.469 mn tonnes earning \$508 mn in FY18, as compared to 307,348 tonnes fetching \$161 mn in FY17. The average per tonne price of sugar stood at \$345.8 in FY18 as against \$523 per tonne in FY17. Sugar production in the last season was 7.5 mn tonnes – well above the requirement of 5-6 mn tonnes, leaving extra stocks of 1.5m tonnes. The government allowed sugar exports at a subsidy of Rs. 20 per kg, with Rs. 10.70 per kg federal share and Rs. 9.30 per kg by the Sindh government.

High Demand for Semi-Skilled Migrant Workers in GCC to Continue

The labor market demand for low- and semi-skilled migrant workers in the Gulf Cooperation Council (GCC) countries private sector is projected to remain high in the short-term, as there are numerous mega projects coming up including the 'Expo 2020' in UAE and World Soccer Cup 2022 in Qatar, ILO says in a report. There are also infrastructure and service needs for a growing GCC population since many of these labor intensive jobs cannot be mechanized or nationalized, according to a report on labor migration, skills development and the future of work in the GCC countries, published by the International Labor Organization (ILO).

INTERNATIONAL ARENA

UK Watchdog and EU Tell Banks to Prepare for Hard Brexit

Britain's banks and insurers must plan for a "hard" Brexit in case a transition period is not in place next March, a senior British regulator said recently in a warning echoed by Brussels. "With eight months until we exit the European Union in March 2019, it is important we all – regulators and industry – continue to plan for a range of scenarios," said Nausicaa Delfas, head of international strategy at the Financial Conduct Authority. "Across the FCA, together with colleagues from the Bank of England and the government, we have been working to develop a number of safeguards and contingencies, in the event of a hard Brexit, to ensure that 'day 1' works smoothly," Delfas told an event held by TheCityUK. Britain and the EU have agreed on a transition deal bridging Brexit in March next year and the end of 2020, but it has yet to be ratified, meaning financial firms based in Britain could face an abrupt end to EU market access. EU banking, insurance and markets watchdogs have already warned their respective sectors to be ready for a hard Brexit. Britain has said it and the EU should act to ensure that cross-border financial contracts like derivatives and insurance policies can still be serviced after March, but the EU reiterated that it will not legislate for now.

US Treasury Secretary Calls on China, EU to Make Tariff Concessions

US Treasury Secretary said recently he will be pushing China and the EU to agree to a more "balanced" relationship on trade when he meets with finance ministers at the Group of 20 convention in Buenos Aires. Earlier US President had described China, the EU and Russia as trade "foes" and threatened to hammer the entire \$500 bn in goods the US imports from China with punitive tariffs. "It is definitely a realistic possibility so I wouldn't minimise the possibility. We have been very clear with our objectives," he told reporters ahead of the start of the two-day G20 summit amongst finance ministers and central bankers from the world's 20 leading economies. "We share a desire to have a more balanced relationship and the balanced relationship is by us selling more goods (to China)." The US trade in



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goods deficit with China stood at almost \$376bn in 2017. "China has a large, growing population that will consume more products and that likes American products." He pointed to energy, agriculture and technology as areas in which the US could boost its Chinese presence.

US Tariffs to Cost Germans Up to 20bn Euros this Year

US President's tariffs will lead to a drop in prosperity in Germany this year and are likely to cost Germans up to 20 bn euros (\$23.44 bn), the head of German think-tank IMK said. The United States imposed tariffs on EU steel and aluminum on June 1 and is threatening to extend them to EU cars and car parts. "The policy of tariffs will cost Germans up to 20 bn euros in additional income this year," Gustav Horn, director of the IMK, which is close to the trade unions, told weekly magazine Der Spiegel.

As Wheat Harvest Heads to Parched North, Europe Braces for More Losses

Europe's grain market is bracing for more downgrades to the size of this year's wheat crop as harvesting reaches the northern regions that have been worst hit by exceptional drought and heat since spring. Germany, the European Union's second-largest wheat grower, has been a focus of concern, and comments this week by the country's farming association saying it could not forecast the crop because of uncertainty about weather damage have added to market jitters. Harvesting is under way in south and central Germany and is spreading north to the regions most badly damaged by dryness. "I think it pretty likely that the association will cut its forecast of the wheat crop in coming weeks as the harvest results arrive," one German analyst said. "The association cut its forecast of the winter barley sharply after the final northern and eastern areas were gathered where the damage was severest." The DBV farming association already forecast on July 5 that Germany's winter wheat harvest will fall 15pc from 2017 to 20.5 mn tonnes.

G20 for Talks to Resolve Trade Tensions that Threaten Growth

Finance ministers and central bankers from 20 leading economies closed a two-day meeting in Buenos Aires recently warning that "heightened trade and geopolitical tensions" threaten the economic expansion. The G20's final communique stressed "the need to step up dialogue and actions to mitigate risks and enhance confidence" amidst fears of an escalating global trade war. While the statement did not mention the United States, which is at the center of trade disputes with G20 members, China, the EU and others, it demonstrated more concern than in March, when the group avoided the issue altogether.

Thousands of British Families Homeless Despite Being in Work

More than half of homeless families in Britain now have at least one adult in work after a sharp rise in the number of employed people unable to afford a secure home, a leading homelessness charity said recently. More than 33,000 working families do not have a stable place to live, a 73pc rise from 2013, according to a study by Shelter's social housing commission that blamed rising private rents, a freeze on benefits and a shortage of social housing. In many cases, these are parents who work all day or night before returning to a cramped hostel or B&B (bed and breakfast) where their whole family is forced to share a room.

China Offers Fresh \$295 mn Grant to Sri Lanka

Chinese President has offered Sri Lanka a fresh grant of 2 bn yuan (\$295 mn), as Beijing looks to expand its influence in the tiny island country off India's southern tip. President of Sri Lanka, a partner in Beijing's multi-country Belt and Road infrastructure push, made the announcement recently at a ceremony marking the start of construction of a Chinese-funded kidney hospital in his home constituency of Polonnaruwa, 230 km (142.92 miles) from Colombo.

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