



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 13, Issue No. 36 | Date: September 07, 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 August 24, 2018, deposits of all scheduled banks stood at Rs. 12,519.706 bn after a decrease of 0.50pc over the preceding week's figure of Rs. 12,582.641 bn.

#### Credit Portfolio

Gross advances of all scheduled banks stood at Rs. 7,404.472 bn, less by 0.015pc over the preceding week's figure of Rs. 7,415.649 bn.

#### Investments Brief

Investments of all scheduled banks stood at Rs. 8,226.791 bn against preceding week's figure of Rs. 8,224.279 bn, higher by 0.03pc.

### Economic Council Formed to Advise Govt

Prime Minister Imran Khan has constituted an 18-member Economic Advisory Council (EAC) with the induction of a few world-renowned economists to ensure the availability of best possible professional advice to the government on economic policies. Unlike past practices, the new EAC will be headed by the Prime Minister himself to ensure that the best possible professional advice is available to the government to inform, optimize and synergize the formulation and implementation of its economic and financial policies. In the past, EACs were headed by finance ministers with no definite agenda for regular meetings. It was observed that EAC met even once in four months and its advice was not considered seriously. Consequently, EACs have become mere debating forums. The ultimate goal of the EAC is to promote analytically sound and evidence-based reforms and initiatives for the progress and development of Pakistan.

### Offline App to Help Prepare Tax Returns

The Federal Board of Revenue (FBR) has launched an application enabling taxpayers to prepare income tax return and wealth statement without using the internet to resolve the connectivity issues they are often confronted with. An official statement issued that the application will help taxpayers to fill out returns in offline mode. The new government is planning to introduce more facilitation with strict measures to penalize non-compliant taxpayers. The application called Iris-ADX (Asynchronous Data Exchange) has been prepared by the Information Technology Wing of the FBR. The application allows the taxpayer/e-intermediary to prepare their statements in offline mode and upload them to the FBR's repository seamlessly.

### MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

#### KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	7.80	8.05
ENDING	7.80	8.05
CHANGE	0	0

#### FOREIGN EXCHANGE RATES

	GBP(£)	EURO(€)	USD(\$)
STARTING	PKR 159.50	PKR 143.00	PKR 123.30
ENDING	PKR 160.67	PKR 144.59	PKR 124.35
CHANGE	+1.17	+1.59	+1.35

#### PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	41,742
ENDING	40,854
CHANGE	-888

#### GOLD RATE

	(10 gm)
STARTING	PKR 49,125
ENDING	PKR 50,240
CHANGE	+1115



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## Revenue Collection Rises 13.6pc

The Federal Board of Revenue (FBR) claimed its collection posted approximately 13.6pc growth in the first two months of the current fiscal year, giving an elbow room to the new government in wake of a huge spending lined up. In absolute terms, the provisional revenue collection reached Rs. 510 bn in July-August FY18 as against Rs. 449 bn collected over the corresponding months of last fiscal year. FBR is expecting a few more billions when the book adjustments and other reconciliation of figures are finalized in the next couple of weeks. The government has set the 2018-19 tax collection target at Rs. 4,435 bn for FBR, which is 18.23pc more than Rs. 3,751 bn sum collected in 2017-18.

## Pakistani Experts to Inspect Two Indian Hydropower Project Sites

India agreed recently to get sites of its two hydropower projects — 1,000MW Pakal Dul and 48MW Lower Kalnal — inspected by Pakistani experts by the end of next month. It also assured Pakistan of taking up its objections/concerns over the two projects seriously by resolving them amicably in the light of technical memorandums to be prepared and exchanged by the two countries in the next meeting to be held in New Delhi. "The major breakthrough of the two-day talks held in Lahore is that India has agreed to get the projects' sites visited by our experts. Therefore, our team comprising experts will visit the sites in India by the end of next month," Water Resource Secretary reported.

## 1,101 New Companies Registered In August

The Securities and Exchange Commission of Pakistan (SECP) registered 1,101 companies in August, an increase of 17pc over the same month last year, raising the total number to 89,702. Around 74pc companies were registered as private limited companies, while around 23pc as single member companies. 3pc were registered as public unlisted, non-profit associations, foreign companies and limited liability partnership (LLP) in the month under review. The trading sector took the lead with the incorporation of 189 companies, construction (165), services (129), IT (119), tourism (68), food and beverages (38), engineering (35), real estate development (31), textile (24), education (23), marketing and development (22), corporate agricultural farming (21), pharmaceutical (20), healthcare (19), auto & allied and transport each (18), logging (12), fuel and energy (11) and 139 others were registered in

other sectors. Moreover, five foreign companies were also registered by CROs in Karachi, Islamabad and Lahore. Foreign investment has been reported in 52 companies from, China, France, Germany, South Korea, New Zealand, Portugal, Saudi Arabia, Turkey, UK, US and Yemen.

## Islamic Banks' Pre-Tax Profit Soars 25pc

Profits of Islamic banks increased by 25pc during first six months of calendar year 2018, according to State Bank's Islamic Banking Bulletin June 2018 issued recently. Profit before tax of Islamic banks stood at Rs. 15 bn by June, 2018 compared to Rs. 12 bn in the same quarter last year. Profitability ratios; return on assets and return on equity - before tax-were recorded at 1.3pc and 20.9pc, respectively. "During the period under review, operating expense to gross income ratio declined by 3pc and stood at 64.5pc by end June, 2018," said the SBP report. Share of Islamic banking assets and deposits in the overall industry was recorded at 12.9pc and 14.8pc, according to the bulletin.

## Phase II of Pak-China FTA

Pakistan and China are set to sign the second phase of the Pakistan-China Free Trade Agreement (FTA); ten rounds of talks have already concluded in Beijing and Islamabad. In the first phase, Pakistan gave concessions on 5,686 tariff lines to China; while China gave concessions on 6,418 tariff lines. Chinese exports to Pakistan grew from \$4.2 bn to around \$12bn, whereas Pakistan's exports to the country only moved up marginally from \$0.6bn to \$1.6bn. Besides the terms of trade under the FTA, several other barriers to trade should be discussed, including sanitary and phytosanitary measures and technical barriers to trade. These were not reviewed before the first phase of the agreement was signed.

## HIGHLIGHTS

The International Finance Corporation of the World Bank Group will support Green Banking in Pakistan, as part of IFC's commitment to helping the country's transition to a green, low carbon and sustainable economy.

Finance Minister told Senate that the Federal Government requires \$ 9 bn to run Pakistan.



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## INTERNATIONAL ARENA

### Turkey Hikes Gas, Power Prices by 14pc as Lira Crisis Deepens

Turkey raised natural gas prices on Saturday by as much as 14pc, two sources said, while the energy regulator announced a similar increase in electricity costs as a deepening currency crisis stokes inflation. The lira has fallen 42pc against the dollar this year, hit by concerns about Turkish President's grip on monetary policy and a worsening rift with the United States over a detained American. The sell-off has increased the cost of food and petrol and raised fears about the impact on the country's wider economy and banks. Economists are particularly worried about the central bank's inability to rein in inflation, which hit a 14-year high of nearly 16pc in July.

### Argentina's President Announces New Austerity Measures

Argentina's President Mauricio Macri recently announced he was slashing his government's bureaucracy in half and restoring taxes on grain exporters as part of sweeping new austerity measures to stabilize the economy. The President admitted that Argentina was facing "an emergency," after its currency, the peso, lost more than half its dollar value this year. "We must confront a fundamental problem: to not spend more than we have, to make efforts to balance the state's accounts," he said in the televised address. He pledged a pared-down government following cuts that would see the number of ministries slashed from 22 to 10 in an effort to save money, demoting more than half his ministers. The move had little immediate effect on the markets, slipping back near the record lows of last week, closing 2.7pc lower at 39.04 to the dollar.

### Indian Postmen To Turn Bankers

Indian Prime Minister launched a payments bank on recently to turn postmen into bankers so they can offer financial services to the poor in rural areas and boost digital transactions. Modi has since 2014 sought to end what he has called "financial untouchability" by giving millions of people access to banking services in India, which the World Bank estimates has 190 mn people without a bank account, second only to China. The India Post Payments Bank will start operations with 650 branches. Accounts will be able to hold a maximum of 100,000 rupees (\$ 1,408) in deposits and will offer limited services. The government said it planned to link its 155,000

post offices to the new payments bank network by Dec. 31 to offer basic bank account services, money transfers and bill payments.

### 3 of China's Big 4 Banks Post Higher Profits

Three of China's biggest four state-owned lenders reported higher profits for the first half of the year, as bad loan ratios held steady. China Construction Bank Corp (CCB), Agricultural Bank of China Ltd (AgBank) and Bank of China Ltd (BoC) also posted steady or wider net interest margins over the same period. The stronger earnings come at a time when China is pumping funds into the banking system and rolling out support measures for local businesses to cushion the impact from an escalating trade war with the United States. Net profit for AgBank, the first of the Big Four Chinese state lenders to report interim results, rose 7pc from a year ago to 115.8 bn yuan (\$ 16.85 bn) for the six months ended June. BoC posted a 5pc rise in profit to 109.1 bn yuan, while CCB netted a 6pc rise, raking in 147.0 bn yuan.

### Swiss Banks Survive 'Economic War' Of Global Secrecy Crackdown

When Switzerland pushes the button to send data on offshore bank accounts to foreign tax agencies this fall, it will be doing what was once virtually unthinkable: abandoning the absolute secrecy once afforded to anyone parking their cash in Zurich or Geneva. The automatic exchange of account information due to take place with other European countries is the last chapter in a saga that began with the arrest of former UBS Group banker Bradley Birkenfeld in 2008, cost Swiss banks more than \$ 6 bn in fines, and prompted criminal probes and travel bans for bankers. Of the more than 80 institutions to wind up in the crosshairs of US authorities — among them UBS, Credit Suisse Group, and Julius Baer Group — Basler Kantonalbank and Zuercher Kantonalbank, are the latest to settle with the Department of Justice. Basler will pay \$ 60.4 mn, while Zuercher agreed to pay \$ 98.5 mn and both publicly owned banks admitted to helping clients conceal income and assets from the US government.

### UNITED STATES - Canada Talks Tense

Talks between Canada and the United States to update the North American Free Trade Agreement (NAFTA) soured recently after US President reportedly said a pact would be on US terms and Ottawa stood firm against signing just any deal.



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US Trade Representative Robert Lighthizer and Canadian Foreign Minister Chrystia Freeland resumed the increasingly fraught talks, with Mexico on standby to return to discussions aimed at ending a year of hard-fought negotiations on the three-way NAFTA. But President Donald Trump said in off-the-record remarks to Bloomberg News this week that any trade deal with Canada would be totally on our terms.

## Argentina's Central Bank Hikes Rates to 60pc As Peso Hits Record Low

Argentina's central bank raised its benchmark interest rate up to a dizzying 60pc in a bid to control rampant inflation as the country's currency plummeted 15.8pc to a record low 40.5 pesos per US dollar. Latin America's third biggest economy is expected to shrink this year, while already-scarce credit has been choked off by increasingly onerous borrowing costs. The central bank raised the rate from 45pc to combat 12-month inflation running at 31pc through July.

## Decline of Big German Banks

German Foreign Minister Olaf Scholz recently said it was "a problem" that the country's big banks had fallen behind their rivals on the global stage, depriving Germany's export-oriented companies of strong local lending partners. Big German and European banks have "lost importance in global rankings" in the 10 years since the collapse of US investment giant Lehman Brothers brought the sector to its knees, Scholz told a banking conference in Frankfurt. "I believe it's a problem for a large economy like Germany's, and for the European Union, that the banks that are active here don't have the scale or global reach needed to support the economy." Germany's export success, he added, depends on companies being able to compete globally. "The financial sector and the banks have to be able to accompany them. "The loss of confidence in Germany's flagship Deutsche Bank and Commerzbank has been obvious from declines in their share prices. Deutsche now has a market capitalization of just under 21 bn euros (\$ 24.5 bn), even after raising some 27 bn euros in new shares between 2010 and 2017 through several capital increases to shore up its balance sheet and invest in growth.

## MANAGEMENT & INFOTECH CORNER

### Amazon Goes From Books to a Trillion \$

Amazon's journey from an online bookseller started in a garage to a global e-commerce powerhouse valued at a trillion dollars has centered on obsession with the long road. The company initially incorporated as "Cadabra" by Jeff Bezos in 1994 and backed with money borrowed from his parents joined Apple as the second US technology firm to be valued at \$1 tr recently.

### Evaluate Old Projects Before New Ones

It is important to challenge yourself with new projects, but taking on more tasks may require you to let go of others. Constantly evaluate your current slate of projects to know what else you have time for. For each task, ask yourself: Does completing this project still make sense? Am I the right person to work on it? Would it be more realistic to push this project out to another quarter? You can also create a chart to help you quickly assess where each project stands. Include columns for activity name, type of project, time required, professional importance, and the personal satisfaction you get from doing it. Use this data to determine which commitments to hold onto and which to let go of, so you can make room to take on new challenges. (Adapted from *Before You Set New Goals, Think About What You're Going to Stop Doing*, by Elizabeth Grace Saunders-HBR.)

### The Biggest Bankruptcy in American History

It was 'Lehman Weekend'. The moment in September 2008 when the 150-year-old investment bank Lehman Brothers collapsed, precipitating the worst global economic crisis since the 1930s. After failing to find buyers for the troubled financial giant, that was weighed down by risky debt holdings made up of at subprime mortgages, US authorities declined to offer a bailout and allowed the institution to fail. Monday, September 15, 2008, at 1:45 am, Lehman Brothers filed for bankruptcy, taking the world by surprise leaving well over \$600 bn in debt, as well as 25,000 employees in shock.

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