



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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PAKISTAN COMPENDIUM

BANKING SCENARIO

Deposits Folder

According to the weekly statement of position of all scheduled banks for the week ended September 22, deposits and other accounts of all scheduled banks stood at Rs. 11,671.125 bn after a 0.20 pc increase over the preceding week's figure of Rs. 11,647.739 bn. Compared with last year's corresponding figure of Rs. 10,219.084 bn, the current week's figure was higher by 14.20 pc.

Credit Portfolio

Gross advances of all scheduled banks stood at Rs. 6,048.241 bn, lower by 0.06 pc over the preceding week's figure of Rs. 6,051.872 bn. Compared with last year's corresponding figure of Rs. 5,046.191 bn, current week's figure is higher by 19.85 pc.

CPEC Shifting Gears to Industrial Parks

The China-Pakistan Economic Corridor (CPEC), about to shift gears and enter its next phase as the industrial working group on Special Economic Zones (SEZs), is going to finalize its recommendations and decide which SEZ will begin first. Towards that end, a team from China International Engineering Consulting Corporation (CIECC) arrived in Karachi and began a round of consultations with provincial authorities as preparation for the final round to be held in Islamabad early next week.

The CIECC is a state-owned consulting firm that will carry the final recommendations from its meetings in Pakistan back to the National Development Reform Commission (NDRC) in Beijing. The sixth meeting of the Joint Coordination Committee of the CPEC had identified steel, pharmaceuticals and chemicals as the first round of industries to be transferred to Pakistan.

CIECC has extensive experience in building industrial parks in China and other countries. It is very important to know the vision and situation of Pakistan, and their hard and soft requirements. He emphasized that different industries have different requirements, and each zone 'must follow its own path'. The soft environment includes policies as well as a 'good environment for working and living', that this is particularly important where international cooperation is concerned. The hard environment includes transport, water, energy and other infrastructure. Nine SEZs are listed on the CPEC website, which will be built once

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 months)

	Bid%	offer%
BEGINNING	5.92	6.17
ENDING	5.92	6.17
CHANGE	0	0

Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
BEGINNING	PKR 140.00	PKR 124.80	PKR 106.40
ENDING	PKR 139.86	PKR 125.32	PKR 105.55
CHANGE	-0.14	+0.52	-0.85

Pakistan Stock Exchange

	100 Index
BEGINNING	41,312
ENDING	39,846
CHANGE	-1466

Gold Rate

	(10 gm)
BEGINNING	PKR 44,700
ENDING	PKR 45,342
CHANGE	+642



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the recommendations are finalized during this round of consultations.

Rice Exports Off to a Flying Start

Rice exports have started the current fiscal year on a positive note, giving rise to hopes that the full-year proceeds will hit \$2 bn after a gap of two years. The country's rice exports jumped 40 pc year-on-year to \$224 mn in the July-August period, according to the Pakistan Bureau of Statistics. Basmati rice exports rose more than 10 pc to \$63 mn during the two months despite a negligible increase in the volume, which rose 0.4 pc to 59,433 tonnes. However, exports of non-basmati varieties saw a big rise of about 47 pc to 369,560 tonnes during the period. Accordingly, export earnings surged 57 pc to \$161 mn. A rise in export earnings of basmati with negligible change in volume is both good and bad. It is good as it points to a rising trend in per-unit price of basmati varieties. On the downside, higher per-unit price could give further edge to Indian exporters, who have already grabbed more than 70 pc share of the Saudi rice market and are increasing their share in other Gulf Cooperation Council countries as well. Moreover, exporters are reaching out to new markets. Some of them are re-establishing their brands by improving quality of processing and packaging while others are switching over from shipping large quantities of loose coarse rice to exporting it in wholesale or even retail packaging.

Auto Sales Surge

Sales of cars and light commercial vehicles (LCVs), jeeps and vans increased 27 pc year-on-year to 60,469 units in July-September. According to data released by the Pakistan Automotive Manufacturers Association (PAMA) recently, car sales rose 22.3 pc to 50,640 units from 41,405 units a year ago. Sales of LCVs climbed 57.5 pc to 9,829 units from 6,240 units last year. Assemblers of local vehicles, including LCVs, vans and jeeps, managed to sell 18,798 units in September, up 17 pc year-on-year. Honda Atlas Cars continued to outperform peers with 24 pc annual growth in September due to the success of its new models, Civic and BRV. However, its sales slowed down 27 pc on a monthly

basis as a plant remained shut for a longer period compared to others because of the clumping of Eid and Muharram holidays. In the first quarter of 2016-17, Honda's sales grew 56 pc to 12,606 units. Pak Suzuki sold 22 pc more units in the first quarter on an annual basis. Sales of Mehran went up 43 pc, WagonR 60 pc and Cultus 33 pc, exhibiting healthy annual growth. Cumulative first-quarter sales were up 30 pc year-on-year to 32,777 units for Pak Suzuki. Indus Motor Company lagged behind its peers with thin growth in September as well as the first quarter mainly due to production constraints. Sales of Toyota Corolla grew slightly to 12,765 units from 12,655 units in July-September. Sales of Toyota Fortuner swelled to 793 units from 145 units. A minor fall was witnessed in Toyota Hilux sales, which dropped to 1,530 units from 1,585 units in the same quarter a year ago. Tractor sales exhibited an upward trajectory with an annual increase of 74 pc in September. Al Ghazi Tractors outperformed Millat Tractors, exhibiting 118 pc growth versus the latter's 72 pc. Tractor sales doubled to 15,710 units in the first quarter. A lower general sales tax rate on tractor purchases, fertilizer cash subsidy, and a Rs.2 bn subsidy for farmers recently announced by the Sindh government will improve overall sales in the future.

Green Banking Ready to Take off in Pakistan

The State Bank of Pakistan has introduced Green Banking Guidelines (GBGs) and has given banks and development finance institutions a year to implement them. The guidelines cover every aspect of banking. Banks are being encouraged to lend generously to environment-friendly projects, expected to ensure that even overall general financing goes to the projects and borrowers that meet provincial, national and global environmental benchmarks. Above all, banks and DFIs are expected to set their own house in order first: GBGs also require all banks and DFIs to make their infrastructure and operations environment-friendly. The central bank wants banks and DFIs to create 'indicative but not exhaustive' green financing portfolios for making loans for alternative energy (wind, solar, biomass and other renewable energy sources), sewage treatment, water conservation, waste disposal, wastewater treatment and public transport. It calls upon them to consider earmarking a certain percentage of their overall



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financing and investment portfolio as a dedicated fund for green investment. Generally speaking, the central bank wants banks and DFIs to tap all opportunities of financing environment-friendly activities of agriculture and SMEs, and corporate and services sectors. These are just guidelines at present but would become binding regulations after a year.

KALEIDOSCOPE

Ten Highest GDP Per Capita Countries (2016)

1. Qatar	\$129,700
2. Luxembourg	\$102,000
3. Liechtenstein	\$89,400
4. Singapore	\$87,100
5. Bermuda	\$85,700 (2013 estimate)
6. Isle of Man	\$83,100 (2007 estimate)
7. Brunei	\$79,700
8. Monaco	\$78,700 (2013 estimate)
9. Kuwait	\$71,300
10. Ireland	\$69,400

Ten Lowest GDP Per Capita Countries (2016)

1. Somalia	\$400 (2014 estimate)
2. Central African Republic	\$700
3. Burundi	\$800
4. DR Congo	\$800
5. Liberia	\$900
6. Tokelau	\$1,000 (1993 estimate)
7. Malawi	\$1,100
8. Niger	\$1,100
9. Mozambique	\$1,200
10. Guinea	\$1,300

INTERNATIONAL ARENA

Soros, Cohen Back App To Lure Cash From Argentine Mattresses

In a country where distrust of banks makes people more likely to stuff cash under a mattress than in a chequing account, a mobile banking app backed by billionaire George Soros aims to disrupt the way Argentines handle money. The venture Ualá, which launched its app recently, offers tech-savvy Argentines a low-cost banking alternative via their smartphones. The company's backers include Steve Cohen's Point72 Ventures and Silicon Valley's Bessemer Venture Partners. Under President Mauricio Macri, the economy is beginning to recover from years of isolation from global markets, capital controls, protectionist policies and soaring inflation. Ualá — a play on wallet and volá — sees an opportunity in the nation's meagre banking penetration: less than half of the population has a bank account, according to the World Bank. More than 50 pc of Argentines are paid in cash, and almost a third of those whose wages are deposited withdraw their money right away. In Argentina, 40 pc of the population already has smartphones — and that's set to grow to 70 pc by 2020, according to the trade group GSM Association. Users sign up for a Ualá account through the app and receive a prepaid Mastercard. There are no opening, closing, maintenance or renewal fees.

India's Slowdown

India is an emerging market standout. The country was one of only a handful of large economies marked down in forecasts from the International Monetary Fund this week. India's gross domestic product is expected to rise 6.7 pc this year, compared with a previous projection of 7.2 pc. Next year's estimate was also lowered. They say India is suffering because global demand is weak — a highly contestable line. Taxes deserved attention. Most observers, including the IMF, attribute part of India's funk to the implementation of a sweeping nationwide sales tax reform. The other factor is the withdrawal of some banknotes from circulation late last year, a radical step referred to as "demonetization," aimed at curbing the



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potential for graft. The tax shakeup was worthwhile, replacing a hodgepodge of sales tax rates that dotted the nation and differed from state to state. Tax rates on 27 items have been cut and extended the period for small businesses to file returns. Critically, exporters were allowed to keep previously existing exemptions until March next year. The government has made boosting exports a priority.

Australia Doesn't Have the Answers

Its pension system is the envy of the world. It shouldn't be. Australians make up barely 0.3 pc of the globe's population and yet hold A\$ 2.1 trn (\$1.63 trn) in pension savings — the world's fourth-largest such pool. Those assets are viewed as a measure of the country's wealth and economic resilience, and seem to guarantee a high standard of living for Australians well into the future. Other developed nations, aging even faster than Australia and subject to fraying safety nets, have held up the system as a world-class model to fund retirement. In fact, its future looks nowhere near so bright. Australia's so-called superannuation scheme is a defined contribution pension plan funded by mandatory employer contributions (currently 9.5 pc, scheduled to rise gradually to 12 pc by 2025). Employees can supplement those savings and are encouraged to do so with tax breaks, pension fund earnings and generous benefits. The gaudy size of the investment pool, however, masks serious vulnerabilities. First, the focus on assets ignores liabilities, especially Australia's A\$1.8 trn in household debt as well as total non-financial debt of around A\$3.5 trn. It also overlooks Australia's foreign debt, which has reached over 50 pc of GDP — the result of the substantial capital imports needed to finance current account deficits that have persisted despite the recent commodity boom, strong terms of trade and record exports. Second, the savings must stretch further than ever before, covering not just the income needs of retirees but their rapidly increasing healthcare costs. In the current low-income environment, investment earnings have shrunk to the point where they alone cannot cover expenses. That's reducing the capital amount left to pass on as a legacy.

Federal Reserve Has Nothing to Worry About

Here's something sobering that several central bankers expressed in the latest Federal Reserve meeting: Low benchmark borrowing costs may be starting to pose a more serious threat to long-term financial stability, according to Fed minutes released today. U.S. central bankers have worried about frothy markets for some time, but some of them are feeling a greater urgency to do something. There are several reasons for this, but one stands out. President Donald Trump and his cabinet members have taken an aggressive stance toward loosening banking regulations. The danger here is age-old — as banks engage in riskier activities, low rates allow them to take on more leverage until, suddenly, boom. The Fed is in a position to stop, or at least slow this process, by tightening monetary policies. By lifting the near-term interest rate, the Fed could make it less economically attractive for firms to increase leverage, or borrow short-term money to invest in longer-term assets.

"Brexit is not a game," the European Union's chief negotiator, Michel Barnier, told British reporters recently when asked if the ball was in the EU's court to make the next move. Britain and its EU partners clashed on Monday over which side should make the next move to unblock the talks, with both sides saying "the ball" is in the other side's court."

Bitcoin Retaking Its Place as King

The largest cryptocurrency crossed \$4,500 recently and is now hovering right below the \$5,000 line. Behind the rally could be reports saying the Chinese government will ease recent regulations and that Goldman Sachs is exploring how it could help clients trade cryptocurrencies. Also, there's yet another split — known as a "hard fork" (or even two) — looming, but that might be bullish as bitcoin rallied after the split into split into Bitcoin Cash earlier this year. There has been a rotation of money out of the lower-quality names and into bitcoin. Bitcoin's market capitalization as a percentage of all cryptocurrencies' market cap of \$155 bn has climbed to 52 pc, from a low of 38 pc in June, according to CoinMarketCap.



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Passion for Work

According to a study conducted by Deloitte a few years ago, up to 87 pc of workers in the US do not contribute to their full potential because they have no passion for their work.

Europe: GDP & Unemployment Rates

Country	GDP, % change on a year ago				Unemployment rates, % - Latest 2017
	Latest	Quarter	2017	2018	
Britain	+1.5Q2	+1.2	+1.5	+1.3	4.3Jun
Euro area	+2.3Q2	+2.6	+2.1	+1.9	9.1Aug
Austria	+2.6Q2	+0.4	+2.3	+2.0	5.6Aug
Belgium	+1.5Q2	+1.7	+1.6	+1.7	7.3Aug
Estonia	+5.7Q2	+5.4	+4.4	+3.4	7.0Q2
Finland	+2.3Q2	+1.4	+2.6	+1.9	7.5Aug
France	+1.8Q2	+2.2	+1.7	+1.8	9.8Aug
Germany	+2.1Q2	+2.5	+2.1	+1.9	3.6Aug
Greece	+0.7Q2	+2.2	+1.0	+1.8	21.0Jul
Ireland	+5.8Q2	+5.8	+4.5	+3.0	6.1Sep
Italy	+1.5Q2	+1.4	+1.4	+1.1	11.2Aug
Latvia	+4.0Q2	+3.1	+3.4	+2.8	8.9Q2
Lithuania	+4.0Q2	+2.6	+3.5	+3.5	7.4Sep
Luxembourg	+2.3Q2	+2.6	+4.1	+4.3	5.8Aug
Netherlands	+3.3Q2	+6.3	+2.7	+2.0	5.9Aug
Portugal	+3.0Q2	+1.3	+2.4	+1.7	8.8Q2
Slovakia	+3.3Q2	+5.6	+3.1	+3.5	6.5Aug
Slovenia	+4.4Q2	na	+4.2	+3.1	9.1Jul
Spain	+3.1Q2	+3.5	+3.1	+2.7	17.1Aug
Czech Republic	+3.4Q2	+10.3	+4.5	+2.9	2.9Aug
Denmark	+1.9Q2	+2.8	+2.2	+1.8	4.5Jul
Poland	+4.6Q2	+4.5	+4.3	+3.2	6.9Sep
Sweden	+3.0Q2	+5.2	+3.1	+2.6	6.0Aug

MANAGEMENT & INFOTECH CORNER

Apple Crosses \$1,000 iPhone Threshold

Apple recently announced that its new iPhone X, which will be available later this year and will cost between \$999 – \$1,149, crossing the four-digit pricing threshold for the phones.

Make Achieving Your Long-Term Goals Fun

Achieving a long-term objective, such as getting in shape, paying off debt, or switching careers, takes persistence. Recent research has found something that can help: incorporating immediate benefits into your pursuit of longer-term goals. Make the short-term activities fun. If you want to work out more, select a fitness class that you enjoy. If you want to eat healthier, build a diet around healthy foods that you actually like to eat. Making activities more enjoyable — by listening to music while exercising or getting work done in your favorite coffee shop — may help you make progress in your goals. And take time to reflect on the enjoyment: If you're eating a food you enjoy, focus more on the positive taste than the health benefit.

(Adapted from *What Separates Goals We Achieve from Goals We Don't*, by Kaitlin Woolley and Ayelet Fishbach HBR.)

Eyes on Our Phones

According to a survey conducted last year by Deloitte, Americans check their phones, on average, 46 times a day during leisure activities like eating dinner or spending time with friends.

Editor: Rafi Ahmed | Deputy Editor: Shahla Naqvi | Designed by: M. Jahangir Ishaq | Email: Publications@ibp.org.pk

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