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 29, deposits and other accounts of all scheduled banks stood at Rs. 11,979.886 bn after a 2.64 pc increase over the preceding week's figure of Rs. 11,671.125 bn. Compared with last year's corresponding figure of Rs.10,510.703 bn, the current week's figure was higher by 13.98 pc.

Credit Portfolio

Gross advances of all scheduled banks stood at Rs. 6,136.882 bn, higher by 1.47 pc over the preceding week's figure of Rs 6,048.241 bn. Compared with last year's corresponding figure of Rs. 5,120.011bn, current week's figure is higher by 19.86 pc

Fish Exports Increase by 19.63 pc in Two Months

Seafood exports from the country increased by 19.63 pc during the first two months of the ongoing fiscal year compared to the corresponding period of last year. Pakistan exported fish and fish preparations worth $ 35.273 mn during July-August (2017-18) compared to the exports of $ 29.486 mn in July-August (2016-17), showing growth of 19.63 pc, according to the data of Pakistan Bureau of Statistics (PBS). In terms of quantity, the exports of fish and fish preparations during the period under review increased by 35.04 pc by going up from exports of 29,486 metric tons last year to 35,273 metric tons during the current year. On year-on-year basis, the seafood exports increased by 24.13 pc in August 2017 compared to the same month of last year. The fish exports and fish preparations exports during August 2017 were recorded at $ 22.800 mn compared to the exports of $ 18.368 mn during August 2016, the PBS data revealed. On month-on-month basis, the seafood exports increased by 82.59 pc in August 2017 when compared to the exports of $ 12.473 mn in July 2017, according to the data.

Services Exports Up by 5 pc in Two Months

The services exports from the country increased by 4.94 pc during the first two months of the current fiscal year compared to the corresponding period of last year. The services exports from Pakistan were recorded at $816.27 mn during July-August (2017-18) compared to the exports of $777.84 mn during July-August

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 months)

	Bid%	offer%
BEGINING	5.92	6.17
ENDING	5.91	6.16
CHANGE	-0.01	-0.01

Foreign Exchange Rates

	GBP(£)	EURO(€)	USD($)
BEGINING	PKR 139.86	PKR 125.32	PKR 105.55
ENDING	PKR 141.00	PKR 126.50	PKR 107.20
CHANGE	+1.14	+1.18	+1.65

Pakistan Stock Exchange

	100 Index
BEGINING	39,846
ENDING	42,087
CHANGE	+2241

Gold Rate

	(10 gm)
BEGINING	PKR 45,342
ENDING	PKR 45,428
CHANGE	+86

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(2016-17), showing growth of 4.94 pc, according to the data released by Pakistan Bureau of Statistics (PBS). The services import during the period went up by 25.01 pc by going up from $ 1439.20 mn last year to $ 1799.08 mn during the first two months of current fiscal year. Based on the figures, the services trade deficit during the first two months of the current year stood at $ 982.81 mn compared to the deficit of $ 661.36 mn during the same period of last year, showing growth of 48.6 pc. Meanwhile, on year-on-year basis, the exports from the country witnessed negative growth of 4.29 pc during the month of August 2017 compared to the exports of August 2016. The services exports during August 2017 were recorded at $ 409.44 mn compared to the exports of $ 427.77 mn in August 2017, the PBS data revealed.

Banks Disburse Rs. 70 bn Consumer Loans

With lower interest rate, consumer loans are firming up and banks disbursed over Rs. 70 bn fresh consumer loans during last fiscal year (FY17). According to the State Bank of Pakistan's report, in the prevailing low interest rate environment, banks have strategized to boost their bottom lines by taking exposure in sectors that promise higher returns and consumer financing was an obvious choice. Consumer loans continued upward momentum and increased by Rs. 70.5 bn in FY17 compared to Rs. 43.7 bn in FY16. The disbursed amount in the last fiscal year is some 61 pc or Rs. 26.8 bn higher than the amount disbursed in previous year, the central bank reported. This flow mainly emanated from auto financing, which held 54.3 pc share in consumer financing during FY17. In addition to low interest rates, the introduction of new models of passenger cars and increasing popularity of ride-hailing services played a significant role in auto-financing uptick. The rest of the expansion in consumer lending is largely explained by financing in segments like personal and housing loans, which increased by Rs. 14.2 bn and Rs. 12.5 bn, respectively. From institutional perspective, the impetus to consumer financing is lately coming from Islamic Banking Institutions (IBIs), especially in the areas of housing and car financing. In case of car financing, the share of IBIs rose to 43.1 pc at end FY17. Their penetration in housing finance is even more encouraging and they now dominate this segment with 60.9 pc share in the overall portfolio of the banking industry. The majority of housing finance was taken for outright purchase, followed by construction, and lastly renovation; this pattern was applicable in case of both Islamic and conventional loans. The report also highlighted the issues related to housing finance and revealed that in case of housing finance, a weak valuation mechanism for real estate and legal glitches faced by commercial banks in exercising their right to collateral has been one of the major restrictive factors in Pakistan.

SBP's Annual Report - FY17

State Bank's annual report for FY17 released on 12th October, 2017 contains an objective assessment of the economy. According to the Report, Pakistan's economy expanded by 5.3 pc in FY17, the highest growth achieved during the last 10 years. A sharp recovery in agriculture sector, healthy value-addition in services sector and improvement in manufacturing sector contributed to this broad-based growth. From the demand side, the growth was led by a surge in consumption and a moderate increase in investment. A major impetus to economic activity came from an accommodative monetary policy and consequent increase in private sector credit; tax incentives for agriculture, exporting industries and investment; and a steady increase in development spending and infrastructure projects under the CPEC. Imports also picked up with an increase in demand. Tax incentives and an increase in development spending helped economic activity. There are certain challenges to sustain the current pace of expansion in the economy while keeping inflation low that need to be addressed. Current account deficit has also to be kept at a manageable level by expanding exports and containing unnecessary imports. The growth in revenue collection needs to be accelerated to maintain the current pace of spending on infrastructure and social development projects. This could be achieved by deepening the reforms at the federal level and stepping up efforts by provinces to enhance their own collection. Further improvement in business conditions has also been proposed to strengthen recovery in investment and help switch away resources from current consumption to investment-cum-export-oriented growth. As for the outlook for FY18, real economic

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activity is expected to maintain the momentum and inflation is likely to remain within the target. GDP growth is projected to come close to the target of 6.0 pc. Workers' remittances are projected to remain in the range of dollars 19-20 bn. Sufficient stocks of wheat, rice and sugar, weak domestic oil prices and stable exchange rate are expected to offset the impact of the rising demand. The fact that the economy had grown by 5.3 pc during FY17 and was poised to grow by 6.0 pc during the current year is, of course, a welcome development but it needs to be pointed out that the continuation of this trend depends on sufficient stocks of food items, low oil prices in the international market. The State Bank has also done the right thing to attract the attention of the authorities to the pressing water issue. There is of course the need for improvement in management of water resources through minimizing losses and encouraging conservation to ensure smooth future supplies. The State Bank seems to have done a fairly good job by highlighting the important aspects of the current status of country's economy.

SMILE-A-WHILE

If money doesn't grow on trees, then why do banks have branches?

Pakistan Ranked 9th Globally for its Booming Digital Economy-UN Reports

Around 16 million Pakistanis went online for the first time in history between 2012 and 2015. This figure accounts to the overall internet users in the country. The arrival of 3G & 4G in Pakistan has contributed a lot in connecting people and increased the internet penetration from 3% to 15% just in short period of 1 year. Pakistan among top 10 economies in terms of its internet users. Due to this, Pakistan ranked in one of the top 10 economies in terms of the number of people going online during the period. Pakistan ranked 9th on the list as compared to India (1st), Iran (7th) and Bangladesh (10th).

INTERNATIONAL ARENA

Battle for Saudi E-commerce Market Begins

In Saudi Arabia, a kingdom where postal codes are rarely used, most people pay in cash, and shopping is done in giant air-conditioned malls, building an online retail business is no easy task. But two powerfully-backed companies are trying to do just that, betting a young, tech-savvy population will eventually deliver up a large slice of the Arab world's largest consumer market. After months of delays, Noon.com launched in the United Arab Emirates (UAE) on Oct. 1 and said it would enter the Saudi market "within the coming weeks." That will start a race for dominance in a largely untapped market against Dubai-based Souq.com, which is already present in Saudi Arabia and poised for expansion after its acquisition this year by Amazon. Both companies are well armed for the fight. Investors in Noon.com, including Dubai billionaire Mohamed Alabbar and Saudi Arabia's sovereign wealth fund, have put $ 1 bn into the project. The business also plans to leverage existing assets from Alabbar's Emaar Malls, Aramex delivery service and Namshi and JadoPado online marketplaces. Souq.com was known as the "Amazon of the Middle East" even before its purchase by the world's biggest online retailer, having built up a following and brand relationships since its launch in 2005. But with online sales in Saudi Arabia expected to surge to $ 13.9 bn by 2021 from a projected $ 8.7 bn this year, there would be plenty for Noon.com to play for. Shifting retail online would be a sea change for commerce in the Middle East, where internet sales now represent less than two pc of total retail, twelve times less than in the United Kingdom, according to a Boston Consulting Group report.

China Confident About Fending Off Systemic Risks in Economy

China remains confident in its ability to fend off systemic risks in the economy and keep its fundamentals healthy and stable, according to a statement from the governor of the central bank. Potential risk levels in China's financial sector have somewhat increased in recent years because of a slowdown in the country's economic growth, as well as structural adjustments and big fluctuations in international financial markets. But China's economy, the world's second biggest, is expected to be able to achieve its annual growth target of around 6.5 pc this year. The country will continue to maintain the stability and continuity of its macroeconomic policies, as risks in so-called shadow banking in China have somewhat eased, while non-performing loans are still at a relatively low level. China will prevent systemic risks from increasing by de-leveraging and curbing asset bubbles while maintaining a modest growth of its economy.

Mexico, Canada Poised to Push Back Over US NAFTA Demands

Trade ministers from the United States, Canada and Mexico recently wrapped up a contentious round of NAFTA negotiations dominated by aggressive US demands including a sunset clause that Canadian and Mexican officials say will be rejected. The Trump administration's proposals to reshape the North American Free Trade Agreement (NAFTA) to help shrink US trade deficits have clouded the talks to modernize the 23-year pact, leaving some participants and analysts wondering how an impasse can be avoided. Washington's demands, previously identified as red lines by its neighbors, include forcing renegotiations every five years, reserving the lion's share of automotive manufacturing for the United States and making it easier to pursue import barriers against some Canadian and Mexican goods. Mexican and Canadian officials at the talks, currently being held in Washington and expected to resume in Mexico City later this month, have said those proposals are unacceptable while stressing their governments will not walk away from the table. Describing some of the demands as `ridiculously extreme', Moises Kalach, head of the international negotiating arm of Mexico's powerful CCE business lobby, said the US government knew that it would not be able to push them through. One person close to the process said there was now a possibility negotiations to modernize NAFTA, which underpins some $ 1.2 trillion in annual trade between the three countries, could even extend into March next year.

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.

KALEIDOSCOPE

GDP Per Capita

GDP per capita is a measure of a country's economic output that accounts for population. It divides the country's gross domestic product by its total population. That makes it the best measurement of a country's standard of living. It tells you how prosperous a country feels to each of its citizens.

The Global Future of Transportation

In a McKinsey and Bloomberg study of 50 metropolitan areas around the world, researchers found that a rapid transition to advanced mobility systems — self-driving cars, electric vehicles, in-vehicle data connectivity and other technology — might yield societal benefits worth $ 600 bn by 2030.

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Eastern Europe: GDP & Unemployment Rates

Country	GDP, % change on a year ago				Unemployment rates, % - Latest
	Latest	Quarter	2017	2018	2017
Estonia	+5.7Q2	+5.4	+4.4	+3.4	7.0Q2
Greece	+0.7Q2	+2.2	+1.0	+1.8	21.0Jul
Latvia	+4.0Q2	+3.1	+3.4	+2.8	8.9Q2
Lithuania	+4.0Q2	+2.6	+3.5	+3.5	7.4Sep
Slovakia	+3.3Q2	+5.6	+3.2	+3.3	6.5Aug
Slovenia	+4.4Q2	na	+4.2	+3.1	9.1Jul
Czech Republic	+3.4Q2	+10.3	+4.5	+2.9	2.9Aug
Hungary	+3.2Q2	+3.5	+3.7	+3.4	4.2Aug
Poland	+4.6Q2	+4.5	+4.3	+3.2	6.9Sep
Russia	+2.5Q2	na	+1.8	+2.0	4.9Aug
Turkey	+5.1Q2	na	+4.9	+3.3	10.7Jul
Ukraine	+2.3Q2	+0.7	+2.0	+1.3	1.2Aug

(Source: *The Economist* – October 16, 2017)

KALEIDOSCOPE

Russia (14 neighbors)

With a series of borders running 20,241 km in total, Russia has the second longest set of land borders among the world's countries. The country shares its borders with 14 separate, neighboring, sovereign countries. To the south, Russia shares its borders with North Korea, Mongolia and China, Georgia, Kazakhstan, and Azerbaijan. Russian borders in the southwest and west are shared with the Ukraine, Estonia, Belarus, Latvia, Lithuania, Poland, Norway, and Finland.

MANAGEMENT & INFOTECH CORNER

No, Really, Stop Using Public Wi-Fi

Using free, public Wi-Fi networks comes with a number of serious security risks, yet many of us do it anyway. To minimize the chance of having your money or financial information stolen, follow these steps. First, if you are on public Wi-Fi, do not shop online, log in to your financial institution, or access other sensitive sites. Use a Virtual Private Network, or VPN, to create a network-within-a-network, keeping everything you do encrypted. For sensitive sites, set up two-factor authentication, so even if hackers steal the passwords to your bank, social media, or email, they will not be able to log in. And turn off the automatic Wi-Fi connectivity feature on your phone so that it will not automatically seek out hotspots. (Adapted from *Why You Really Need to Stop Using Public Wi-Fi*, by Luke Bencie-HRB)

Prepare Before a Difficult Conversation

When you need to have a tense conversation, do not try to wing it. You cannot know how the discussion will go, so think through a few possible scenarios ahead of time. What if your counterpart gets upset and cries? What if they get angry? What if you get interrupted, or need to finish the conversation quickly? Of course, you cannot write a script for every eventuality, but considering as many of them as possible will help make sure you do not get blindsided and lose your cool. You might also want to find a trusted colleague with whom you can role-play some scenarios. Try different approaches, and test out phrases you might use for various possibilities. Then ask your role-play partner to give you feedback. (Adapted from *The HBR Guide to Dealing with Conflict*, by Amy Gallo)

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