



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 13, Issue No. 43 | Date: October 26, 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 October 12, 2018, deposits of all scheduled banks stood at Rs. 12,629.848 bn, less by 0.56pc, over the preceding week's figure of Rs. 12,701.690 bn.

#### Credit Portfolio

Gross advances of all scheduled banks stood at Rs. 7,501.474 bn higher by 0.26pc over the preceding week's figure of Rs. 7,481.798 bn.

#### Investments Brief

Investments of all scheduled banks stood at Rs. 5,920.490 bn against preceding week's figure of Rs. 6623.299 bn, lower by 10.61pc.

#### Assets Notebook

Total Assets of all scheduled banks amounted to Rs. 16,549.799 bn against previous week's figure of Rs. 16,934.088 bn, less by 2.27pc.

### Exports Grow by 4.6pc

Exports grew by 4.6 per cent during the first quarter of the current fiscal year, according to data released by the Pakistan Bureau of Statistics recently. Pakistan mainly exports rice, kinnows, mangoes, furniture, cotton fibre, cement, tiles, marble, textiles, clothing, leather goods, sports goods (renowned for footballs/soccer balls), cutlery, surgical instruments, electrical appliances, software, carpets, rugs, ice cream, livestock meat, chicken, powdered milk, wheat, seafood etc.

*Note:* It may be noted that The 'Kinnow' is a high yield mandarin hybrid cultivated extensively in the wider Punjab region of Pakistan. It is a hybrid of two citrus cultivars — 'King' (Citrus nobilis) × 'Willow Leaf' (Citrus × deliciosa) — first developed by Howard B. Frost, at the University of California Citrus Experiment Station. After evaluation, the 'Kinnow' was released as a new citrus hybrid for commercial cultivation in 1935.

### Current Account Deficit Down 2.5pc in July-Sept

The current account deficit for 1QFY19 slightly declined by 2.5pc or \$96 mn, reflecting the impact of 13pc higher remittances during the same period. The State Bank of Pakistan (SBP) reports that the current account deficit during July-September was \$3.665bn, compared to \$3.761bn in the same period of last fiscal year.

### MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

#### KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	9.48	9.73
ENDING	9.34	9.59
CHANGE	-0.14	-0.14

#### FOREIGN EXCHANGE RATES

	GBP(£)	EURO(€)	USD(\$)
STARTING	PKR 171.50	PKR 151.00	PKR 133.25
ENDING	PKR 168.00	PKR 147.50	PKR 131.70
CHANGE	-3.5	-3.5	-1.55

#### PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	38,430
ENDING	40,556
CHANGE	+2126

#### GOLD RATE

	(10 gm)
STARTING	PKR 52,941
ENDING	PKR 51,655
CHANGE	-1286



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## FDI Position July-Sept 2018

Central bank's data revealed that FDI during July-September FY19 clocked in at \$439.5 mn compared to \$765 mn last year. Pakistan desperately requires foreign exchange inflows to cap the rising current account deficit. The decline in inflows comes at a time when Pakistan's depleting foreign exchange reserves have already fallen to alarmingly low levels at \$14.6 bn including State Bank of Pakistan's (SBP) \$8.089 bn providing enough only for two months of import cover. The overall FDI during the quarter reached \$254 mn compared to inflows of \$687 mn in the first quarter of last fiscal year. In tandem with last few quarters, China led the list of countries pouring investment into Pakistan. The Asian giant made up for 64pc of the total FDI during the quarter contributing \$281 mn. Following China, United Kingdom contributed \$51 mn, US \$25 mn and Switzerland \$39.6 mn. The present government has announced its plan to develop investment friendly policies to attract foreign investments while it also ensured to reduce cost of doing business in Pakistan.

## Basmati Exports

The global basmati rice market stood at \$10.5 bn in 2017 and is growing at a CAGR (Compound Annual Growth Rate) of 11pc. By 2022, the market is anticipated to be worth \$18 bn. Since it has originated in the subcontinent, Pakistan and India are the main growers of basmati rice but Pakistan's exports last year were half a billion dollars compared to India's nearly \$4 bn. One reason is Iran's market for Basmati rice which is amongst the biggest in the world. The pseudo barter system that India set up with Iran allowed the former to buy oil on easy credit terms and pay in part through rice. This gave India access to Iran's \$1 bn rice market of which Pakistan's share was \$2 mn in FY17. Regardless of India's blustering to the contrary, Trump's sanctions on Iran's oil imports will greatly curtail this market. One could hope that the recently created Pak-Iran trade committee will identify the opportunity and find a way to circumvent banking challenges. The other big consumers of basmati rice are the GCC countries, mainly Saudi Arabia and UAE.

## TFS Gets \$1.1 mn in Seed Funding

Tez Financial Services (TFS), the first fully digital Non-Bank Microfinance Company (NBMFC) focused on serving the

un-banked and under-banked in Pakistan, announced that it has raised \$1.1 mn in a seed round led by Omidyar Network, the impact investment firm established by Pierre Omidyar, the founder of eBay. Other investors on this round include Accion Venture Lab, the seed-stage investment initiative of global non-profit Accion; and Planet N. Funds will be deployed to build the company's credit portfolio, enhance its mobile technology platform, and to meet the regulatory NBMFC requirements.

## Sharp Rise in Bank Borrowings

Both private and public sectors have aggressively been borrowing from commercial banks from the outset of this fiscal year, while the government is relying on State Bank of Pakistan (SBP) to meet its fiscal deficit. The government's borrowing for budgetary support in 1QFY19 (July to Oct 5) stood at just 28.7pc of the amount taken in the corresponding period of last year. The decrease in borrowing indicates government's attempt at lowering the fiscal deficit. The SBP report shows that the government borrowed Rs. 123 bn for budgetary support in 1QFY19 versus Rs. 428 bn in same period last year. The private sector credit off-take during the first quarter was much ahead of FY18 levels, reflecting higher participation in the economy. The SBP reported that the private sector borrowed Rs. 113.2 bn during the first quarter (up to Oct 5) as against offloading of debts worth Rs. 58 bn in the same period of FY18.

## SC Bars Mobile Phone Firms From Levying Additional Charges

Months after temporarily doing away with additional taxes and service charges imposed on customers on the purchase of top-up cards for pre-paid cellular connections, the Supreme Court recently barred mobile phone companies from levying additional charges on post-paid connections. A three-member bench of the apex court headed by Chief Justice of Pakistan Mian Saqib Nisar also ordered continuation of relief the court had provided to the pre-paid connection holders and ordered the government and the service providers not to charge any tax from them till a proper legislation was enacted to address the issue.



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## Services Exports Up

The export of services grew 5.8pc in the second month of 2018-19, the Pakistan Bureau of Statistics stated on October 15, 2018. The services exports revived in August to \$452.03 mn after negative growth in July. In 2MFY19, the export proceeds rose 2.4pc to \$858.25 mn. Its major sub-sectors are finance and insurance, transport and storage, wholesale and retail trade, public administration and defence. Pakistan has opened up its market to foreign service-providers, particularly in banking, insurance, telecommunications and retail areas.

## FARM SECTOR LIMELIGHT

- » 18,606 big landlords got agricultural credit worth Rs. 222.7 bn in the last fiscal year.
- » Against this, 1.752 mn small farmers got just Rs. 183.6 bn.
- » A little more than 110,000 mid-sized landowners received Rs. 76.3 bn.
- » It must be kept in mind that big landlords are defined as those holding more than 50 acres of land in Punjab and Khyber Pakhtunkhwa and over 64 acres of land in Sindh and Balochistan.
- » Small farmers are those who hold up to 12.5 acres in Punjab and KP, up to 16 acres in Sindh and up to 32 acres in Balochistan.
- » Mid-sized landowners of each province fall in between respective provincial categories of small farmers and big landlords.

## INTERNATIONAL ARENA

### Most Cryptocurrency Offerings Trading Below Listing Price

Almost a third of all cryptocurrencies that were financed through online fundraisers last year have lost "substantially all value," while the vast majority are trading below their listing price, according to an Ernst & Young report published recently. The professional services firm analyzed more than 141 projects that raised money in 2017 through initial coin offerings (ICOs), in which new virtual currencies are issued to buyers. It found that 86pc of coins have fallen below their initial price on online exchanges. Companies typically raise money through ICOs to build new technology platforms or to fund businesses that use cryptocurrencies and blockchain, the software that underpins them. EY analyzed 86 projects that raised in 2017 and found 71pc still have no working product or offering in the market. The percentage is significantly higher than what could be expected with traditional venture-backed software startups, EY said.

### EU, Singapore Sign Free Trade Deal

The European Union and Singapore signed a landmark trade deal recently on the sidelines of a Europe-Asia summit that Brussels hopes can be a rebuke to protectionism in Washington. Singapore Prime Minister signed the accord in Brussels with European Council President, European Commission President, and Austrian Chancellor whose country currently holds the EU Presidency. Hailing the Singapore agreement, German Chancellor said "we can make it clear that the world is about creating win-win situations." These deals "make it clear that what benefits one, can also benefit the other," she added as she arrived for an EU-Asia summit where the deal was signed, in a tacit criticism of US President. The text still needs to be validated by the European Parliament before it enters into force in 2019.

### Bank Briefs

American Big banks reported bumper earnings for the third quarter. Net Profit at JPMorgan Chase rose by 24pc, compared with the same three months last year to \$8.4bn. Bank of America & Wells Fargo both saw net income grow by a third, to \$7.2 bn & \$6 bn respectively. At Morgan Stanley & Goldman Sachs profits were up by a fifth. Citigroup made a profit of \$4.6bn, an increase of 12pc.



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## China's Richest Woman, Supplier to Apple and Tesla, Loses 66pc of Wealth

Lens Technology shares have slumped 62pc this year. iPhone and Tesla touchscreens once made her China's richest woman. The US-China trade war has made her the biggest loser in 2018 among Chinese billionaires. Zhou Qunfei, the chairman of consumer electronics supplier Lens Technology Co., has lost 66pc of her fortune, or \$6.6 bn, this year — the biggest drop in percentage terms among China's wealthy, based on the top 1,000 profiles in the Bloomberg Billionaires Index. Lens Technology shares have slumped 62pc this year, driven by a selloff of Apple Inc. suppliers as U.S. President stepped up trade tariffs on China, and as Elon Musk agreed to resign as Tesla Inc. chairman following a Securities and Exchange Commission probe.

## EU Eyes Brexit Customs Deal to Break Deadlock

European Union negotiators are looking at ways to promise Britain a customs deal that could stretch Brussels' Brexit red lines but might break a deadlock over the Irish border, EU sources close to the talks said. Accounts of how British and EU negotiators came close to a deal on Oct 13 focus on how Prime Minister Theresa May balked at an EU demand for a "backstop" clause. This could put Northern Ireland in a special relationship with the EU that might distance it from the British mainland to avoid putting up customs posts on Britain's only EU land border, with Ireland.

## Foreigners Sell Net \$1.1bn of Saudi Stocks

Foreigners sold a net 4.01 billion riyals (\$1.07 bn) in Saudi stocks in the week ending Oct. 18, exchange data showed — one of the biggest selloffs since the market opened to direct foreign buying in mid-2015. The selloff came during a week when investors were rattled by Saudi Arabia's deteriorating relations with foreign governments following the disappearance of a journalist. A breakdown of the exchange data showed foreigners sold 5 bn riyals worth of stocks and bought 991.3 mn worth. "The market started to price in a fundamentally different relationship between Saudi Arabia and the US," said Jaap Meijer, head of equity research, at Arqaam Capital.

## MANAGEMENT & INFOTECH CORNER

### 3 Questions Before Joining the Family Business

Many people join their family's business without enough forethought or due diligence. The company may be a logical place to build your career, but how do you know whether it will be a good fit? Asking three questions can help: First, what is motivating you to join? It is likely that there are many factors — may be your father expects you to, or you think it is your best shot at securing a senior position. Ideally, your motivation comes from your passion for the business, not just external pressures. Second, are the personal relationships among the family leaders healthy enough? Family members do not always need to get along, but they do need to make good decisions together. Will your parents, siblings and cousins support you during the inevitable crises that will arise? Third, are you OK with being in the spotlight? Employees tend to watch family members closely. How you behave will reflect, for better or worse, on the full family. (Adapted from *Should You Join the Family Business?* by Judy Lin Walsh and Rob Lachenauer-HBR.)

### We Are All Behind at Work. Do Not Feel Guilty

When you have a never-ending to-do list, it is easy to feel guilty about what you have not finished. But guilt is useful only when it motivates you to get more done — it should not make you feel ashamed. To ease these kinds of emotions when they arise, exercise self-compassion. Imagine what you would say to a friend who felt bad for being behind on a few projects. Chances are you would tell your friend not to worry about it so much — so tell yourself the same thing. You can also make yourself feel better by focusing on what you have been able to accomplish. Keep a "done list" in addition to your to-do list, so you can remind yourself of past work. And always remember: All that work you have to do will be there tomorrow, whether you feel guilty about it or not. So cut yourself some slack, take a breath and just do your best. (Adapted from *You're Never Going to Be 'Caught Up' at Work. Stop Feeling Guilty About It*, by Art Markman-HBR.)

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