



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 October 06, deposits and other accounts of all scheduled banks stood at Rs. 11,739.872 bn after a 2 pc decrease over the preceding week's figure of Rs. 11,979.886 bn. Compared with last year's corresponding figure of Rs. 10,288.442 bn, the current week's figure was higher by 14.10 pc.

Textile, Clothing Exports Grow 8pc

Pakistan's exports of textile and clothing products posted nearly 8 pc growth year-on-year to \$3.25 bn in the first quarter of 2017-18, the Pakistan Bureau of Statistics (PBS) reported recently. One of the reasons for the revival in textile and clothing exports is the cash subsidy offered under the prime minister's exports enhancement package. The release of pending refunds and better energy supplies also contributed towards increasing exports. The main driver of growth was the value-added textile sector. Exports of ready-made garments went up 16 pc in the first quarter in value and 19 pc in quantity. Similarly, exports of knitwear edged up 9 pc in value and 15 pc in quantity during the period under review. Exports of bedwear went up 7.1 pc in value and 1.8 pc in quantity while those of towels posted a growth of 0.91 pc in value. In the category of primary commodities, exports of cotton yarn witnessed a year-on-year increase of 4.5 pc while those of yarn other than cotton recorded a rise of 7.67 pc. Exports of made-up articles, excluding towels, increased 8.64 pc. Art, silk and synthetic textile exports grew 88.8 pc during the period under review. However, exports of tents, canvas and tarpaulin dipped over 32 pc. Proceeds from raw cotton exports recorded a year-on-year increase of 69.7 pc.

IMF Praises Pakistan's Economic Resilience

The International Monetary Fund recently released the country report on Pakistan, praising the government for strengthening macroeconomic resilience. The report notes that the country's outlook for economic growth is favorable with real GDP estimated at 5.3 pc in FY 2016-17 and strengthening to 6 pc over the medium-term. Macroeconomic resilience was strengthened during the three-year Extended Fund Facility (EFF)-supported programme completed in September 2016: growth increased, the fiscal deficit was reduced, and foreign currency reserves recovered, the report said based on Article IV consultations. The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation 1 with Pakistan on June 14. Meetings with Pakistani officials were

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 months)

	Bid%	offer%
BEGINNING	5.91	6.16
ENDING	5.92	6.17
CHANGE	+0.01	+0.01

Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
BEGINNING	PKR 141.00	PKR 126.50	PKR 107.20
ENDING	PKR 141.50	PKR 126.50	PKR 107.30
CHANGE	+0.5	0	+0.1

Pakistan Stock Exchange

100 Index

BEGINNING	42,087
ENDING	41,105
CHANGE	-982

Gold Rate

(10 gm)

BEGINNING	PKR 45,428
ENDING	PKR 45,471
CHANGE	+43



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held in March and April in Dubai. According to the report, structural reforms were set in motion; long-standing fiscal and energy sector constraints started to be tackled, and social safety nets were strengthened. However, the report said that while the successful implementation of business climate and financial inclusion reforms has continued, some renewed accumulation of arrears in the power sector has been observed.

Pakistan's IT Exports Surge

Pakistan's IT exports reached an all-time high for the outgoing financial year of 2016-17 with receipts of nearly \$ 1 bn received through the banking channel. According to the statistics provided by the State Bank of Pakistan, exports of IT industry classified as telecommunication, computer and information services surged to the level of \$ 938.640 mn in the last financial year. The exports earning of the IT industry registered a double digit growth of 19 pc or \$ 150 mn from the financial year 2015-16 which stood at \$ 788.640 mn. Exports of IT or ICT services – in broad terms – are largely delivered to countries and regions such as USA, Middle East and South African countries. Hence, the foreign exchange inflows in IT sector is not reported as its original potential.

Breakup of IT industry Exports of Services and Products

Heads of IT Exports	Financial Year 2015-15	Financial Year 2016-17
Call Center	\$ 72.824 million	\$ 82.823 million
Telecom Services	\$ 221.446 million	\$ 281.917 million
Hardware Consultancy	\$ 2.282 million	\$ 3.443 million
Software Consultancy	\$ 139.167 million	\$ 227.437 million
Computer Repair	\$ 0.663 million	\$ 0.737 million
Export of Software	\$ 286.564 million	\$ 264.065 million
News Agency Services	\$ 0.981 million	\$ 1.011 million
Information Services	\$ 0.559 million	\$ 0.539 million

Source: State Bank of Pakistan

Large-Scale Manufacturing Expands by 8.5pc

Large-scale manufacturing (LSM) recorded a growth of 8.5 pc year-on-year in the second month of 2017-18, the Pakistan Bureau of Statistics recently. In July, LSM posted a

year-on-year growth of 13 pc. The LSM target for 2017-18 is 6.3 pc. It grew 5.6 pc in 2016-17. In July-August, LSM posted a growth of 11.3 pc on an annual basis. LSM constitutes a share of 80 pc within manufacturing and 10.7 pc in overall GDP. Contrary to this, small-scale manufacturing accounts for 1.8 pc in GDP and 13.7 pc within manufacturing. Production data of 36 items received from the Ministry of Industries showed they contributed 5.44 pc to LSM growth in August. The contribution of 65 items, whose production data is provided by provincial bureaus of statistics, remained 1.3 pc. Production data of 11 items received from the Oil Companies Advisory Committee (OCAC) showed they contributed 1.8 pc to LSM growth in August. Industry-specific data shows that iron and steel products recorded a growth of 53 pc, coke and petroleum products 28.8 pc, automobiles 19 pc, wood products 15.7 pc, pharmaceuticals 10.18 pc, leather products 8.5 pc, non-metallic mineral products 7.8 pc, food, beverages and tobacco 7.5 pc, engineering products 4.34 pc, chemicals 3.13 pc, rubber products 1.8 pc, paper and board 1.53 pc, fertilizers 0.17 pc and textiles 0.56 pc. Electronics showed a decline of 4.5 pc during the month under review. In the automobile sector, the production of tractors in August went up 91.13 pc, trucks 31.2 pc, motorcycles 19.84 pc and jeeps cars 16.87 pc. The production of light commercial vehicles (LCVs) dropped 10.04 pc while that of buses declined 13 pc during the month under review. The increase in the chemical sector was mainly driven by caustic soda, which went up 26.21 pc in August. In the pharmaceutical segment, capsules, injections, liquids/syrups and tablets recorded a growth of 18.46 pc, 18.18 pc, 8.6 pc and 9.6 pc, respectively. In non-metallic mineral products, cement grew 8.18 pc in August mainly because of vibrant construction activities and a reduction in the benchmark interest rate. In food, beverages and tobacco, the highest growth of 49.8 pc was recorded in sugar production in August on account of a rise in the sugarcane crop, rising domestic prices and wide usage of ethanol in power generation by manufacturers. Other items that recorded a positive growth are vegetable ghee, up 3.08 pc, cooking oil 7.02 pc and blended tea 3.98 pc. In the engineering sector, the production of diesel engines increased 300 pc while that of safety razor blades rose 1.82 pc.



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Cotton Prices Surge on Strong Buying

Cotton prices surged on Monday, backed by strong buying for quality lint. Fearing shortage of quality cotton, spinners indulged in panic buying. Though cotton crop production estimates continue to be over 12.5 mn, bales for current season but quality issues have been keeping spinners on their toes. Monsoon rains in lower Sindh and Punjab caused damage to standing cotton crop in both the provinces. Due to excessive heat wave, the crop could not mature properly in Punjab. The rush for quality cotton also pushed phutti (seed cotton) prices higher, with Punjab variety being quoted between Rs. 2,900 – Rs. 3,200 and Sindh quality in the range of Rs. 2,700 – Rs. 3,100 per 40 kg. Cotton prices on ready deals also moved higher and touched Rs. 6,400 per maund.

Switching to Climate-Smart Agriculture

Pakistan has been asked to fully adopt the climate-smart agriculture (CSA) approach to achieve food security and broader development goals under a changing climate and increasing food demand. The proposal has been incorporated in a study carried out by the World Bank in association with the International Centre for Tropical Agriculture (CIAT), the CGIAR Research Programme on Climate Change, Agriculture and Food Security (CCAFS), and the UK government's Department for International Development (DFID). The study provides a snapshot of a developing baseline created to initiate discussion, both within countries and globally, about entry points for investing in CSA. Commenting on the new initiative, Dr. Muhammad Azeem Khan, director general of the National Agricultural Research Centre, Islamabad, says that concerted efforts have been made over time to develop technologies to address climate-change issues. The technologies developed for rainwater harvesting include site-specific hill torrents management, soil and water conservation and groundwater recharge to improve crop productivity. However, situations differ under wet, dry, deserts and coastal agro-ecological systems. Dr. Azeem says that the successful models practiced the world over could be studied for better understanding about the technological choices, social acceptance, scalability and accessibilities. The potential areas of collaboration could be water harvesting techniques, watershed management,

groundwater recharge techniques, water use efficiency, integrated land use, compatible germplasm and microbial collections.

World Bank Rates Pakistan Among Top Private Investment Countries

Pakistan has been grouped in top five highest private participation investment (PPI) countries owing to a few multi-billion-dollar power projects, with two hydropower plants worth \$3.6 bn during the first half of 2017. A half year update on private participation in infrastructure (PPI) published by the World Bank on Friday says that Indonesia was the destination for the highest amount of PPI investment, while Pakistan and Jordan were new entrants to the top five countries, joining Indonesia, Brazil and China. Indonesia, Pakistan and Jordan are amongst the top five highest PPI investment countries. South Asia's 17 pc share of first half of 2017 global PPI investment may mark the reversal of a regional trend of declining shares of global investment, which reached a low of 4 pc in 2015. In the first half of 2017, investment in South Asia has already reached the full-year 2016 level, driven by the financial closure of two power megaprojects in Pakistan - the Suki Kinari hydropower plant worth \$1.9 bn and the Karot hydropower plant worth \$1.7 bn.

Govt Takes Non-Tariff Steps to Curb Imports

The government recently stepped up its efforts to discourage imports by linking clearances of goods with compliance to stringent regulations. The new regulations will also apply to imports under the Free Trade Agreements (FTAs) and Preferential Trade Agreements (PTAs) as well. The rates of regulatory duties range from 10 pc to 30 pc on different items, which are generally consumed by affluent segment of society. The new regulations will apply on import of 581 tariff lines, which include products like dairy products, leather, animal, meat, tomatoes, potatoes, onions, garlic, vegetables, fruits etc. Most of these products were already subjected to regulatory duties as well. In the Import Policy Order 2016, the government had already put in place regulations for 439 and 157 tariff lines, respectively.



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INTERNATIONAL ARENA

Bitcoin Crosses \$6,000 Mark for the First Time

In the latest price spike, Bitcoin saw its price jump north of \$ 6,000 for the first time, weeks after it crossed the \$ 5,000 figure for the first time. The currency peaked at \$ 6,067. It is trading at around \$ 6,009. Not only that, the currency also reached a record valuation of \$ 100 bn for the first time ever in its history. Bitcoin's most-recent surge began earlier last week, when the currency saw its price jump thanks to rumors of upcoming support on Amazon. The move, if passed through, would do wonders to the exposure of the currency and its usability. Whether that happens could be revealed in Amazon's next investor call set soon. Then there were reports from China, which pointed to a possible loosening of restrictions imposed there. With the journey hardly ever straightforward for Bitcoin, the softening there could be balanced by further restrictions from Russia (something which shaved \$600 from its value earlier this month). The upcoming hard fork of the currency, which will bring improvements in the quality of transactions and usability, will only bring further excitement in the field.

Worldwide Debt More Than Triple

Worldwide debt has risen to a record \$ 226 trillion – more than three times global annual economic output – and firms in more countries are struggling to service loans, a study shows, just as key central banks prepare to end super-cheap credit policies.

World markets are expected to get confirmation over the next week that normalizing global interest rates from the extraordinarily low levels introduced to offset the fallout of the 2009 credit crash is no longer just a US phenomenon. The European Central Bank will lay out cuts to its 2 1/2 year-old stimulus program, the Bank of England looks set to raise British interest rates for the first time in a decade, while the Fed is moving towards its third hike of the year. Years of cheap central bank cash has pushed world stock markets to successive record highs. But another side effect

has been explosive credit growth as households, companies and governments took advantage of rock-bottom borrowing costs. Global debt now amounts to 324 pc of the world's annual economic output, the Institute of International Finance (IIF) said in a report.

One of the most authoritative trackers of global capital flows, the IIF report also highlighted "rollover" risks, especially in emerging markets that have borrowed in hard currencies such as euros and dollars. It calculated around \$ 1.7 trillion needs to be refinanced or paid back before the end of 2018 across developing economies. Such debts will become costlier to service if Western interest rates rise and currencies strengthen. While US interest rates have already been raised four times, the prospect of more alongside Europe's shift toward tighter monetary policy, have pushed two-year US borrowing costs to a nine-year high. The IIF said the rise in indebtedness was largely down to a \$ 3 trillion rise in debt levels across the developing world, which now have debt totalling \$ 59 trillion.

China accounted for \$ 2 trillion of this rise, with its debt now at around \$ 35 trillion. More broadly, corporate debt and household debt rose \$ 2.6 trillion and \$ 2 trillion respectively globally. The report acknowledged that some advanced economies had continued attempts to deleverage by trimming public debt and that the pace of global debt growth had moderated slightly.

Big Economic Changes Have Hit India

The sweets usually fly off the shelves during the Hindu festival of Diwali, but this year, only a handful of passers-by stopped by. Idle employees waited around to take down orders while the neatly piled towers of shimmering confections waited for a customer. In the past year, India's economic performance has fallen short of expectations. The shock of major economic changes has caused panic and confusion, leaving some small businesses with slower sales than in past years. The downturn is especially bitter because of the promises Prime Minister made when he came to power in 2014. Chiding his predecessor Manmohan Singh, an Oxford-educated



economist who oversaw the economic liberalization of India in the 1990s, Modi presented himself as a financial genius who presided over the state of Gujarat throughout years of boom. He spoke of his own rise from a streetside tea seller as a personal economic miracle, promising jobs for the young and a new focus on manufacturing to take on neighboring China. But his promises have gone unfulfilled. Growth slumped to a three-year low from April to June, just 5.7 pc. Job creation has stagnated, leaving millions without work.

Vietnam: 'Yellow Card' Over Illegal Fishing

The European Union (EU) has given a 'yellow card' to Vietnam, warning the Pacific country it could ban seafood exports unless Hanoi did more to tackle illegal fishing. The European Commission, the executive of the 28-nation EU, said Vietnam should fix the problem 'within a reasonable timeframe' but did not set a deadline.

G-8: GDP and Unemployment Rates

G-8 Country	GDP, % change on a year ago				Unemployment rates % - Latest 2017
	Latest	Quarter	2017	2018	
United States	+2.2Q2	+3.1	+2.2	+2.3	4.2Sep
Japan	+1.4Q2	+2.5	+1.5	+1.2	2.8Aug
Britain	+1.5Q2	+1.2	+1.5	+1.3	4.3Jul
Canada	+3.7Q2	+4.5	+2.8	+2.2	6.2Sep
France	+1.8Q2	+2.2	+1.7	+1.8	9.8Aug
Germany	+2.1Q2	+2.5	+2.1	+1.9	3.6Aug
Italy	+1.5Q2	+1.4	+1.4	+1.1	11.2Aug
Russia	+2.5Q2	na	+1.8	+2.0	5.0Sep

(Source: *The Economist* – October 24, 2017)

MANAGEMENT & INFOTECH CORNER

Profits vs. Employment

Compared to a year ago, profits for the 30 largest conglomerates in South Korea have risen 48 pc. However, the number of people working for these companies decreased by 0.4 pc in the first six months of 2017.

Singapore Loves Smartphones

Data from Nielsen shows that 87 pc of the population in Singapore owns smartphones, compared to 68 pc of U.S.

To Solve a Problem, Stop Thinking About It

When you are trying to come up with a creative solution to a problem, you might be tempted to buckle down and focus until you solve it. But recent research shows that taking breaks at regular intervals leads to better outcomes. Set a timer for a certain amount of time, say, 30 minutes. When it goes off, switch tasks: Organize your reimbursement receipts, and then return to the original task. If you are hesitant to stop because you feel that you're on a roll, you should take a break anyway: We tend to come up with redundant ideas when we do not take regular breaks, so ask yourself whether your latest ideas are as great as they seem. And do not feel guilty about taking breaks. Doing so may actually be the best use of your time. (Adapted from *To Be More Creative, Schedule Your Breaks*, by Jackson G. Lu, Modupe Akinola, and Malia Mason- HBR)

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