



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan\*

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Volume 14, Issue No. 48 | Date: November 29, 2019

A Company Set Up Under Section 42 of the Companies Act, 2017

## PAKISTAN OVERVIEW

### Governor SBP Shares Developments in Financial Inclusion with Queen Maxima

Queen Maxima of the Netherlands in her role as the UN Secretary General's Special Advocate for Inclusive Finance for Development (UNSGSA) called on Dr. Reza Baqir, Governor State Bank of Pakistan at Islamabad. The Special Advocate and Governor Baqir discussed how inclusive financial technology (Fintech) and digital finance represent a great opportunity to improve people's financial lives, while noting it is important to consider and mitigate risks associated with it. At the outset of the meeting, Dr. Baqir highlighted SBP's initiatives, commitment and achievements for increasing financial inclusion under National Financial Inclusion Strategy (NFIS) 2023. The Governor also shared with the UNSGSA, the high impact development initiatives including gender mainstreaming in financial inclusion, creation of Innovation Office within the central bank, establishment of Micro Payment Gateway (MPG) and regulatory framework for Fintechs. The Governor said that SBP, being mindful of the rising gender gap in access and usage of financial services in Pakistan, has decided to launch a policy to reduce the gender gap in financial inclusion. Accordingly, the Governor presented the draft policy on gender mainstreaming to the UNSGSA, which aims to introduce a gender lens within the financial sector through identified pillars and specific measures.

### Total 3G/4G Subscribers in Pakistan

August 2019 - 71.4 Million  
 FY 2019 - 68.9 million  
 FY 2018 - 56.1 million  
 FY 2017 - 42.1 million  
 FY 2016 - 29.5 million  
 FY 2015 - 13.5 million - (Source: PTA)

### Monetary Policy Statement

At its meeting on 22nd November 2019, the Monetary Policy Committee (MPC) decided to leave the policy rate unchanged at 13.25pc. The decision reflected the MPC's view that recent developments had offsetting implications for the inflation outlook. On the one hand, recent inflation outturns have been on the higher side. On the other, the causes behind these outturns have primarily been increases in food prices which are expected to be temporary. Also market sentiment has begun to gradually improve on the back of sustained improvements in the current account and continued fiscal prudence. The MPC noted that the SBP's projection for average inflation for FY20 remained broadly unchanged at 11 – 12pc and maintaining the current monetary policy stance was appropriate. In reaching this decision, the MPC considered key developments since the last MPC meeting, developments in the real, external and fiscal sectors, and the resulting outlook for monetary conditions and inflation. Key developments since the

## MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

### MONETARY POLICY RATE

Effective from July 16, 2109 - 13.25pc

### KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	13.30	13.55
ENDING	13.36	13.61
CHANGE	+0.06	+0.06

### FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 201.20	PKR 172.50	PKR 155.40
ENDING	PKR 201.50	PKR 171.50	PKR 155.70
CHANGE	+0.3	-1.00	+0.3

### PAKISTAN STOCK EXCHANGE

#### 100 Index

STARTING	37,925
ENDING	39,287
CHANGE	+1362

### GOLD RATE

(10 gm)

STARTING	PKR 73,603
ENDING	PKR 73,045
CHANGE	-558



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last MPC meeting . There have been three key developments since the last MPC meeting. One, the current account balance recorded a surplus in October 2019 after a gap of four years, a clear indication of receding pressures on the country's external accounts. Two, the government's primary balance is estimated to record a surplus in the first quarter of FY20, a first since Q2-FY16. This, together with the end of deficit monetization has qualitatively improved the inflation outlook. Three, the most recent business confidence survey shows that businesses expect inflation to fall in the near term suggesting that inflation expectations remain anchored despite the recent increases in food prices.

## Govt. Increases Private Sector Credit to SMEs

The government has decided to enhance share of private sector credit for Small and Medium Enterprises (SMEs) from the current meagre 7.5pc to 17pc until 2023, said Minister for Economic Affairs Hammad Azhar recently. The announcement came from the minister during a two-day event titled 'Pakistan Innovating Finance Forum', organized by the Asian Development Bank and Karandaaz. The minister said that this vital sector contributes 30pc to GDP and comprised 90pc of all enterprises. The SME sector provides 80pc of non-agricultural jobs, he highlighted. The government hopes SME sector development will lead to creation of more jobs, promoting economic activities and reducing poverty in the country. As part of the target, Mr. Azhar said, substantial increase in credit line will mean that financial outreach will increase to 700 SMEs by 2023 from the existing 200.

## Mitchell's Fruit Farm for Sale

Mitchell's Fruit Farms Ltd recently announced that it has shortlisted two firms for a strategic sale of shares along with transfer of management control. "The board of directors was informed of the bidding process and firm intentions received from Waves Singer Pakistan Ltd and Bioexyte Foods Pvt Ltd," the company said in a filing with the Pakistan Stock Exchange. "The board considered the key recommendations from the management and authorized its representatives to

## Pakistan's Major Economic Indicators - FY 2018 & FY 2019

<b>REAL SECTOR (GROWTH IN %)</b>	<b>FY 2018</b>	<b>FY 2019<sub>p</sub></b>	<b>FY 2019<sub>†</sub></b>	<b>-</b>
REAL GDP	5.5	3.3	6.2	-
AGRICULTURE SECTOR	3.9	0.9	3.8	-
INDUSTRIAL SECTOR	4.9	1.4	7.6	-
SERVICES SECTOR	6.2	4.7	6.5	-
<b>CPI INFLATION (YoY%)</b>	<b>FY 2019<sub>pa</sub></b>	<b>JUL-OCT FY20<sub>pa</sub></b>	<b>SEP 2019</b>	<b>OCT 2019</b>
NATIONAL	6.8	10.3	11.4	11.0
URBAN	7.1	10.5	11.6	10.9
RURAL	6.3	10.1	11.1	11.3
FOOD INFLATION-URBAN/RURAL	4.7/4.8	12.1/12.9	15.0/15.0	13.7/14.6
<b>MONETARY SECTOR (IN BILLION Rs.)</b>	<b>FY 2018</b>	<b>FY 2019<sub>p</sub></b>	<b>Jul - OCT 19<sub>#</sub></b>	<b>-</b>
CURRENCY IN CIRCULATION	476.5	562.2	381.1	-
<b>p</b> PROVISIONAL	-	-	-	-
<b>pa</b> PERIOD AVERAGE	-	-	-	-
<b>†</b> Target from Annual plan 2018-19- PBS	-	-	-	-
<b>#</b> Last weekend of the month	-	-	-	-

SOURCES: PBS/ STATISTICS-SBP NEWS November 19/PROVISIONAL DATA



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negotiate and finalize terms of documentation with preferred bidder," the notice said. Both companies began their due diligence of the food giant in early August. Bioexyte has bid to acquire 30pc of issued and paid-up capital through rights shares along with management control. A source with knowledge of the transaction said that Mitchells has been running growing losses for almost four years now and in the last 18 months the directors of the company had to loan it up to Rs.150 mn to keep it afloat. In 2018, the company declared a loss of Rs. 292.61 mn, which was Rs. 30 mn in 2017. (Note: Mitchell's Fruit Farms, a Pakistani food products company, established by Francis J. Mitchell in 1933. It consists of 720 acres in Renala Khurd, Okara District).

## CPEC Crucial for Pakistan's Development

Defending the China-Pakistan Economic Corridor (CPEC), Finance Adviser Dr. Abdul Hafeez Shaikh recently called for global awareness campaign about the multibillion dollar program for its real success. He was talking to journalists after attending a seminar when asked to comment on recent statements from US Assistant Secretary Alice Wells warning Pakistan about the deepening debt problems due to CPEC. He said the CPEC was a very important program that involves a number of projects for the development of Pakistan like improvement in road network, modernization of railway infrastructure, setting up of Special Economic Zones (SEZs) to provide modern infrastructure to attract foreign investment.

## Pakistan Needs to Create More Jobs: WB

The country's economy needs to create more jobs by taking advantage of the large influx of a well-educated young labor force, says a new research by the World Bank. The 'Labor Market Analysis', using data from a Pakistani online job portal, finds that although there is an excess supply of highly educated workers, certain industries, such as information and communications technology (ICT), lack workers who have specialized skills and experience. One of the key findings is that there are insufficient jobs where bachelor and graduate degree holders are expected to use their acquired skills. The labor market tightness at the post-secondary level is low. The analysis also finds that the

exact match of qualifications and skills is important for employers. Job applicants who are under or over-qualified for posts are less likely to be shortlisted than those whose qualifications exactly match the requirements. Employment is a key challenge in Pakistan and while unemployment rate is low at 6pc, the quality of employment is not high. By industry, ICT is the largest in terms of the number of employers at 23pc and postings at four jobs on average by each. Administrative, social and personal services come in second at 15pc and four listings, followed by professional, scientific and technical services at 14pc and three jobs, manufacturing 12pc and three jobs, and wholesale, retail, hotel and restaurant at 11pc and two postings.

## Non-Textile Exports Up 4pc

The government's cash support to various sectors helped increase non-textile exports during the July-October period by 4pc to \$2.96 bn compared to same period last fiscal year. The increase shows the exports of non-textile products have rebounded in the ongoing fiscal year reversing the declining trend seen during last few years. The government had extended cash support to leather manufacturers, footwear, sports goods, surgical, engineering goods, furniture, meat and meat products, fish products and cutlery manufacturers in a bid to increase non-textile exports.

## Investment Opportunities Exist for US Companies in Pakistan

Good trade and investment opportunities exist in Pakistan for US investors to explore, Agricultural Counsellor of United States Department of Agriculture (USDA) Rey Santella said recently. Speaking at a meeting during his visit to the Karachi Chamber of Commerce and Industry (KCCI), the USDA representative said Pakistan has faced many challenges in the past but the country has been progressing well and the situation is much better now. The US business community is being invited but many of them are still reluctant to visit Pakistan mainly due to negative perception as well as legal and Information Technology related hurdles that need to be addressed, Mr. Santella said. Besides exporting meat, soybean and other agricultural products, non-fat dry milk worth \$50 mn was also being sent to Pakistan annually, the meeting was informed.



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## INTERNATIONAL VISTA

### Alibaba Raises \$ 11 bn in Share Offering in Hong Kong

The Chinese e-commerce giant Alibaba has raised at least \$11 bn in a share offering in Hong Kong, netting the city's biggest offering since 2010 despite recent turmoil. Alibaba recently set the price for the secondary share offering at 176 Hong Kong dollars (\$22.50) per share. The price is a 2.9pc discount for the closing price for its shares traded in New York. It is also below the original maximum offer price of \$188 Hong Kong dollars. The company's shares began trading on Nov 26.

### OECD Warns Global Growth Weakest Since Financial Crisis

The OECD trimmed its outlook for the global economy recently, saying the world was headed for its weakest economic growth since the 2007-2008 financial crisis. Urging governments to invest in digital and climate transformation, the Organization for Economic Co-operation and Development said activity had been hobbled by weaker trade and investment in the past two years, as US President Trump and Chinese leaders continue to be locked in a trade conflict. The OECD now expects economic activity around the world to expand by 2.9pc next year, a decline of 0.1 percentage points from a previous forecast issued in September. Growth was likely to remain slow, it said, with expansion in 2020-2021 seen at around 3pc, down from a 3.5pc rate projected only a year ago. This was shaping up to be "the weakest rate since the global financial crisis", according to OECD chief economist Laurence Boone. Growth this year was also likely to come in at 2.9pc, the OECD said in its November 2019 Economic Outlook.

### China Sets Tougher Guidelines to Protect Patents, Copyrights

China issued new, tougher guidelines for protection of patents, copyrights and other intellectual property in a move that may be timed to help along halting progress in trade talks with the United States. The guidelines issued recently by the State Council beefed up laws for protecting

such intellectual property rights, increased compensation for infringements and stricter enforcement of existing laws. They also lower the threshold for criminal prosecution of intellectual property rights (IPR) offenses. The new blueprint makes protection of intellectual property one of the criteria for evaluating local government officials' performance, creating a greater incentive for compliance.

### LVMH & Tiffany Announce \$ 16.2 bn Tie-Up

LVMH and US jewelers Tiffany announced a \$16.2 bn tie-up that is the French luxury group's biggest-ever acquisition and will bolster its presence in the United States. The deal comes after LVMH spent more than a month wooing Tiffany, the most iconic of US luxury brands known for its wedding rings and diamonds. The companies said in a statement they "have entered into a definitive agreement whereby LVMH will acquire Tiffany for \$135 per share in cash, in a transaction with an equity value of approximately 14.7 bn Euros or \$16.2 bn". The deal adds Tiffany to LVMH's extensive stable of luxury brands that include Louis Vuitton, Dior and Moët & Chandon and will strengthen its position in the jewelry sector. (LVMH- Moët Hennessy – Louis Vuitton SE also known as LVMH, is a French multinational luxury goods conglomerate headquartered in Paris)

### Greece Repays IMF Early

Greece's finance ministry says the country has completed an early repayment of loans to the International Monetary Fund worth 2.7 bn euros (\$2.9 bn). The action completed recently had received the required approval from European bailout lenders and will help Greece lower its debt servicing costs by taking advantage of favorable market rates. Greece completed its third successive international bailout program last year, after receiving rescue loans over eight years from its European Union partners and the IMF to avoid default and remain in the Eurozone.

### Aramco IPO's Retail Tranche Oversubscribed

The state oil giant plans to sell a 1.5 pc stake, or about 3 bn shares, and has said at least one-third of the sale is expected to be covered by retail investors. With an indicative price of 30-32 riyals, the IPO is valued at as much as 96bn riyals (\$25.6bn) and gives the firm a market value of \$1.6-1.7 tr.



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## MANAGEMENT OUTLOOK

### TIPS

#### **Your Employees Want to Feel the Purpose in Their Work**

Instilling purpose in your employees takes more than motivational talks, lofty speeches or mission statements. In fact, if overblown or insincere, those methods can backfire, triggering cynicism rather than commitment. To inspire and engage your employees, keep two things in mind. First, purpose is a feeling. You could tell your team that their work is important, but how can you help individuals feel it firsthand? Think about ways to show people the impact of their jobs. Perhaps you could bring a customer in to share a testimonial, or send a small team into the field to experience the client's needs for themselves. Second, authenticity matters a lot. If your attempts at creating purpose do not align with how you have acted in the past, employees will likely be skeptical, and they might be left feeling more manipulated than inspired. Making the pursuit of purpose a routine, rather than a one-off initiative, will show employees that you are serious about it. (This tip is adapted from *Helping Your Team Feel the Purpose in Their Work*, by Dan Cable-HBR.)

### SNIPS

#### **Giving Thanks**

In a survey, Glassdoor found that 53pc of people stated that receiving expressions of appreciation from their bosses entices them to stay at the company for the long term.

#### **When Malicious Software Attacks**

The 2017 WannaCry cyberattack was estimated to cause up to \$8 bn in damages.

**GREAT LEADERS  
DON'T TELL YOU  
WHAT TO DO,  
THEY SHOW YOU  
HOW IT IS DONE**

#### **Show Senior Leaders That You Can Think Strategically**

Being able to think strategically is important, but in order to get ahead, you have to show your boss and other senior leaders that you can do it. One of the best ways to showcase your skill is to bring a point of view to an important conversation. During a meeting where strategy is being discussed, for example, ask yourself whether those present know where you stand. If they do not, speak up and share your perspective. Higher-ups want to see that you do not make decisions in a vacuum, so be sure that your point of view considers how other departments might be affected or how the outside world will respond. Also, show that you can use your knowledge to put new ideas into action. No matter your level in the organization, you can execute a project that demonstrates that your understanding of the business extends beyond your current role. Leaders will know you are ready to be promoted when they know you can make decisions that position the company for the future. (This tip is adapted from *How to Demonstrate Your Strategic Thinking Skills*, by Nina A. Bowman-HBR.)

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