



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 13, deposits and other accounts of all scheduled banks stood at Rs. 11,733.096 bn after a 0.06 pc decrease over the preceding week's figure of Rs. 11,739.87 bn. Compared with last year's corresponding figure of Rs. 10,301.89 bn, the current week's figure was higher by 13.90 pc.

SBP Profit Rises to Rs. 238 bn

- SBP's profit for FY17 registered a modest growth of 4 pc over the last year's profit, according to the annual performance review issued recently.
- It amounted to Rs. 238.064 bn in FY 17 against Rs. 229.353 bn in FY 16. Its income on foreign currency assets registered an increase of almost 50 pc. The central bank transferred an amount of Rs. 191.815 bn to the federal government.
- The SBP said the banking sector constitutes around 74 pc of the country's financial sector with an asset base equivalent to almost 55 pc of the country's GDP.
- It said lending to the federal government and commercial banks remained major sources of its profit followed by earnings on foreign exchange reserves.
- This increase in earnings is primarily attributable to a rise in discount income by Rs. 21.086 bn and interest earned on foreign assets by Rs. 5.365 bn. It was partly offset by a decrease of Rs.17.519 bn in income on reverse repo transactions.
- Interest income increased over 3 pc to Rs. 260.871 bn. However, interest earned on lending to the federal government increased 14 pc due to a significant rise in government borrowing from the central bank. Interest earned on lending to commercial banks through reverse repos reduced 22 pc due to significantly lower volumes of these operations.
- The increase in the income on foreign currency assets was partly attributable to a rise in the yield on reserves due to the upward movement of interest rates in international financial markets.
- The SBP earned a net exchange gain of Rs. 24.569 bn in FY17 against Rs. 25.779

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 141.50	PKR 126.50	PKR 107.30
ENDING	PKR 141.75	PKR 125.00	PKR 107.60
CHANGE	+0.25	-1.5	+0.3

Pakistan Stock Exchange

100 Index

BEGINNING	41,105
ENDING	41064
CHANGE	-41

Gold Rate

(10 gm)

BEGINNING	PKR 45,471
ENDING	PKR 45,514
CHANGE	+43



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bn earned in FY16, registering a decline of 5 pc. The rupee depreciated against the dollar by Rs. 0.020 and appreciated against the special drawing rights (SDR) by Rs. 0.366. Accordingly, the depreciation against the dollar resulted in the exchange gain of Rs. 8.059 bn while the appreciation against the SDR led to the exchange gain of Rs. 2.723 bn.

• The remaining net exchange gain of Rs. 12.049 bn is due to the appreciation and depreciation of the rupee against other currencies.

• The total expenditure during the year was Rs. 41.745 in FY17 bn against Rs. 40.855 bn in FY16, registering an annual increase of 2.18 pc. This was due to an increase of 18 pc and 8 pc in banknote-printing charges and agency commission, respectively.

08 Smallest Countries in the World

- Saint Kitts and Nevis - 261 km²
- Marshall Islands - 181 km²
- Liechtenstein - 160 km²
- San Marino - 61 km²
- Tuvalu - 26 km²
- Nauru - 21 km²
- Monaco - 2 km²
- Vatican City - 0.44 km²

\$ 1.5 bn Financing Secured for Coal Power Plants

China Power Hub Generation Company Pvt. Ltd (CPHGC) — the sponsor of proposed 1,320MW coal power project - said it had finalized \$ 1.5 bn financing arrangements with a consortium of Chinese banks led by China Development Bank (CDB) and Exim Bank of China. With this, the company said it was getting closer to have a financial close for the project by end of 2017, according to a company statement which said the financing documents including the main foreign loan facility agreement were signed last week in Chengdu, China. The consortium of banks will provide up to 75 pc of total project investment that works out at approximately \$1.5 bn. It said the China Power International Holding Ltd (CPIH) had until now provided \$ 300 mn as share-

holder loan to pay for project construction. The project of CPHGC is located at Hub, Balochistan, 45 km northwest of Karachi. The equity proportion of CPIH in CPHGC is 74 pc and that of Hubco is 26 pc. The total investment in the two (660 MW each) projects based on imported coal along with a dedicated jetty is approximately \$ 2 bn. During commercial operations, the project is expected to provide 9 bn kWh electricity to the national grid every year – enough for about 4 million households.

Encouraging Inclusivity

After the successful launch of Pink Taxi (an exclusive taxi service for women), PAXI has launched their 'Bike Taxi' service, which began last month in Karachi. The service provides affordable rides to middle and lower-income segments, students, and people who do not own a bike or car and rely on public transport to work every day. Perhaps equally important is the fact that PAXI have made an effort to include disabled people into their workforce through this service as 'pilots' (drivers). According to PAXI, anyone who owns a motorbike can join PAXI as a partner or pilot. Upon joining, they are given a complete pilot kit which includes a pilot uniform, helmet, passenger helmet, hair net, wet tissues, medical kit and a fire extinguisher.

PAXI currently has a fleet of over fifty bikes. Out of the 50 pilots hired, five suffer from lower-limb disability. There is another batch of ten pilots who are lower-limb disabled and they are currently being trained; soon, they will also be serving for PAXI's Bike Taxi service. The company retrofits every bike for people with disabilities and installs and modifies parts so that they can be used by them easily. The 'pilots' within both categories undergo training; however, extra sessions are provided for disabled pilots to empower them with skills to deal with unpleasant situations.

China Helps Develop Hybrid Rice Varieties

Pakistan had sought technological help from China to develop and introduce hybrid rice varieties in all the four ecological zones of the country. The objective was to arrest the decline in the production of rice, the country's second main staple. The Chinese response to the government's request was prompt, and a team of scientists travelled to Pakistan for a month-long visit. Yuan Long Ping High-Tech



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Agriculture Co Ltd, one of the world's most renowned rice hybrid seed production companies, carried out a program last month to help improve the capacity of researchers, scientists, extension workers, the private sector and farmers to produce hybrid rice seed and promote its productivity. The best hybrid rice varieties were showcased which were suitable for the four ecological zones of the country. The Chinese team studied the growers' requirements for hybrid rice seeds in the ecological zones of Pakistan where coarse rice production has great potential. Scientists of the Pakistan Agricultural Research Council (PARC) foresee a revolution in hybrid rice seed as a result of the cooperation between China and Pakistan. The two countries have agreed to cooperate in hybrid rice promotion at federal, public and private sector levels in Pakistan. With the Chinese assistance, new varieties of rice hybrid seed — coarse or non-basmati rice — will be developed to increase productivity, profitability and exports, in addition to improving the already available hybrid rice varieties.

LIMELIGHT

The Federal Board of Revenue (FBR) has notified reduction in sales tax rate to 6 pc from standard 17 % on the import of finished goods of textile and leather.

Exports of textile and clothing products grew 8 pc year-on-year to \$ 3.25 bn in the first quarter of 2017-18, the Pakistan Bureau of Statistics reported.

Of the Rs. 765 bn collected in revenues during the July- September quarter by the FBR, only 7.6 pc came from direct taxes. The remainder was made up by indirect and withholding taxes.

Almost 100 top international sports and leisurewear brands procure their products from Sialkot, earning foreign exchange annually for the country, president of Sialkot Chamber of Commerce and Industry said.

INTERNATIONAL ARENA

Supply- Chain Finance: The Missing Link

Technology is reshaping the financing of firms that sell to other firms and leading banks into new alliances

In 2015, Kiddyum, a small company from Manchester that provides frozen ready-meals for children, won a contract from Sainsbury's, a big British supermarket chain. Jayne Hynes, the founder, was delighted. But sudden success might have choked Kiddyum's cashflow. Sainsbury's pays its suppliers in 60 days; Ms Hynes must pay hers in only 30. In fact, Kiddyum gets its cash within a few days. Once approved by Sainsbury's, its invoices are loaded onto the supermarket's supply-chain finance platform, run by Prime Revenue, an American company. The Royal Bank of Scotland picks up the bills, paying Kiddyum early. Kiddyum pays a small fee. Sainsbury's pays RBS when the invoice falls due.

Suppliers, of course, have always needed finance for the gap between production and payment. Modern supply-chain finance also lets suppliers carried on the creditworthiness and lower borrowing costs of big corporate customers. Cash replaces receivables on their balance-sheets. Buyers can lengthen payment terms (from 60 to 90 days, say), knowing suppliers are less likely to fail for want of cash. Banks acquire good-quality assets.

BCR Publishing estimates that at the end of 2014, banks and factoring operations had \$ 48 bn - \$ 60 bn of funds in use. Thomas Olsen of Bain Consulting Firm reckons that the market is expanding by 15-25% a year in the Americas and by 30-50% in Asia, with food and retailing among the most active industries. Naveed Sultan, who heads Citigroup's trade-finance division, says supply-chain finance is the fastest-growing area of his trade business. Unmet demand looks enormous. Even domestic supply chains are extensive.

Eric Li of a research firm, forecasts that this year large banks' revenues from programs instigated by big buyers will be \$ 2.8 bn. Technology firms are pushing into supply chains. PrimeRevenue, for instance, connects 70 lenders,



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including banks to 25,000 suppliers with \$ 7 bn worth of invoices a month. HSBC and Santander Bank, have recently allied with Tradeshift, an invoicing network that connects over 1.5 mn buyers and suppliers worldwide. Banks can tap into a new pool of customers; companies in the tech firms' networks can find finance more easily. Technology is opening up more possibilities. C2FO, another financial-technology firm, matches suppliers' requests for payment at a date and interest rate of their choosing, with buyers willing to lend. The firm has recently teamed up with Citigroup. Citi can lend to more companies; C2FO gains access to the giant's clients. More banks are now exploring how blockchain technology might align the flow of data and money more closely with the flow of goods. Not every bank will win. The smaller fry in the world's supply chains just might. (Source: *The Economist*)

World's Largest Automakers, July 2017

World's Largest Automakers

Sales 6 months 2017

	Jan-Jun 2017	YOY	Est. 2017 mln.
 RENAULT NISSAN	5,268,079	7.0%	10.5
 Volkswagen	5,155,600	0.8%	10.3
 TOYOTA	5,129,000	2.7%	10.3

The Renault-Nissan Alliance continues its strong showing that made it the world's largest automaker by half time 2017. As of July, and according to data supplied by the automakers, the Alliance remains in the number one position, before Toyota, and last year's number one, Volkswagen.

The Alliance, which consists of Renault including AvtoVAZ, Nissan, and Mitsubishi, increased its global year-to-date output by a respectable 13%. Toyota took its foot off the brake and accelerated by 4.4% compared to the same period in 2016. Volkswagen Group added 1.3%.

All three global automaker groups are expected to make and sell more than 10 million units this year. Who will come out ahead is still anybody's guess. As of July, the Renault-Nissan Alliance leads Toyota by a little less than 50,000 units. Toyota is some 136,000 units ahead of Volkswagen. Anything can happen with that tight a race.

Plan To Stop Major Banking Sector Crisis

With stressed assets adding up to a mindboggling Rs. 10 trillion, India's banking sector (dominated even now by state-owned lenders), has been heading for a major crisis in recent years. Of the total stressed assets, gross non-performing assets of state-owned banks alone add up to a whopping Rs. 7.7 trillion. About three years ago, gross NPAs amounted to less than Rs. 3 trillion. Finance Minister recently said indiscriminate lending has resulted in mounting bad loans in the books of nationalized banks. The government now aims to reform the sector. And last week, in what many see as a bold move, the government unveiled an Rs. 2.11 trillion bank recapitalization plan that would hopefully cheer up the Indian economy, which has of late witnessed a sharp slowdown in growth. The roadmap to recapitalize stretches over two years and includes the issue of recapitalization bonds, even equity dilution and budgetary support. Of the total recapitalization plan of Rs. 2.11 trillion unveiled last week, about Rs. 1.35 trillion will be through issue of bonds.

Trans-Pacific Members Aim for Good Result Next Week

Chief negotiators from the 11 nations left in the Trans-Pacific Partnership (TPP) are aiming to have positive results at a ministerial-level meeting next week, a Japanese government official said recently.

Japan and 10 other nations have been exploring ways to save the trade pact after President Donald Trump pulled the US out of the grouping in January to prioritize protecting US jobs. The negotiators are gathered in the Japanese city of Urayasu, Chiba prefecture, for three days of talks that started on Monday to narrow down the terms of the original deal to suspend in order to salvage the pact. Japan



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said all countries including New Zealand, which had earlier said it would seek to renegotiate the trade pact because of concerns over foreign investment in its crisis-ridden housing sector, were committed to making progress.

Eurozone Economy Grows Faster

The Eurozone economy grew faster than expected last quarter and unemployment fell to its lowest in almost nine years, backing up the European Central Bank's move to begin reducing its bond buying despite slightly soft inflation this month. The European Union's statistics office Eurostat estimated that the gross domestic product of the 19 countries that use the euro grew 0.6 pc in July-September from the previous three months and was 2.5 pc higher than in the same period of 2016. Economists polled by Reuters had expected a 0.5 pc quarterly rise and a 2.4 pc year-on-year gain.

The unemployment rate fell to 8.9 pc of the workforce or 14.513 mn people in September from a downwardly revised 9.0 pc, or 14.609 mn, in August. Economists polled by Reuters had expected an unemployment rate of 9.0 pc. But consumer price growth in October eased to 1.4 pc year-on-year, a Eurostat estimate showed, from 1.5 pc in the previous two months. The ECB wants to see headline inflation below but close to 2 pc over a two-year horizon.

KALEIDOSCOPE

Kazakhstan – World's Largest Land-Locked Country

The largest country with no border-access to the open ocean is Kazakhstan, which has an area of 2,724,900 km² (1,052,100 mile²) and is bordered by Russia, China, Kyrgyzstan, Uzbekistan, Turkmenistan, and the landlocked Caspian Sea.

MANAGEMENT & INFOTECH CORNER

Samsung Song

Samsung Electronics logged a record profit of \$10.0 bn for the third quarter. The world's biggest memory chip and smartphone maker has faced multiple challenges since last year, including a humiliating recall of its flagship Galaxy Note 7 handsets. But its net profits for July to September soared 148 pc on the same period a year ago — its best for any quarter — it said in a statement, thanks to strong demand for its memory chips and a recovery in smartphone sales with the roll-out of the new generation Galaxy Note 8.

Big Spending on Diversity Programs

Between 2014 and 2016, the internet giant Google spent about \$265 million on diversity programs.

What to Do When You Don't Get Feedback

If you work for a boss who doesn't provide feedback, it is easy to feel rudderless. Fortunately, performance evaluation data shows that there are things most managers look for in their employees. Delivering results is a clear one — managers are consistently impressed when their direct reports are able to achieve goals on schedule. Quality of work matters too, of course. Managers also highly rate people who are trustworthy, communicate well and have technical expertise. So if your boss will not tell you what they're looking for, consider how you stack up against these general expectations. Identify gaps and focus on working toward these expectations. With any luck, your boss will take notice.

(Adapted from *How to Improve at Work When You're Not Getting Feedback* by Jack Zenger and Joseph Folkman- HBR)

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