



Economic Letter

a weekly publication of The Institute of Bankers Pakistan*

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Volume 14, Issue No. 49 | Date: December 06, 2019

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

PAKISTAN OVERVIEW

Fresh Talks With Qatar Likely to Cut LNG Import

Pakistan is expected to request Qatar to reduce its Liquefied Natural Gas (LNG) supplies under a 'take or pay' long-term contract as its energy demand tumbles amid an economic slowdown. Informed sources said that the proposal for fresh talks with Qatar had come up for discussion at a meeting of the Economic Coordination Committee (ECC) of the cabinet recently as part of risk mitigation on account of privatization of two LNG-based 2,650 MW power plants of National Power Parks Management Company (NPPMC) Haveli Bahadur Shah and Balloki in Punjab.

Revenue Shortfall Grows to Rs. 211 bn

Revenue collection in November grew by 17pc compared to last year to touch Rs. 334 bn, according to Federal Board of Revenue (FBR) Chairman Shabbar Zaidi in a late afternoon tweet after monthly figures had been compiled. The figure is still short by Rs. 48 bn from the November target, causing the overall revenue shortfall this fiscal year to climb to Rs. 211 bn.

Moody's Upgrades Pakistan's Outlook From Negative to Stable

Moody's Investors Services upgraded Pakistan's outlook from 'negative' to 'stable', reaffirming the country's rating of B3, the agency announced recently. Moody's had downgraded Pakistan's ratings outlook to negative last year in June, citing heightened external vulnerability risk due to depleting foreign exchange reserves. "The change in outlook to stable is driven by Moody's expectations that the balance of payments dynamics will continue to improve, supported by policy adjustments and currency flexibility. Such developments reduce external vulnerability risks, although foreign exchange reserve buffers remain low and will take time to rebuild," said Moody's.

Tough Steps Earn Moody's Outlook Lift: SBP

Moody's upgradation of Pakistan's outlook from negative to stable is the recognition of tough decisions taken by the policymakers including the steep devaluation of exchange rate, said Governor Reza Baqir in a press release issued by the State Bank on Tuesday. Moody's international credit rating agency raised the outlook on Pakistan's credit rating from negative to stable recently. Commenting on the increase in the stock market, he said the rally is a reflection of the improving market sentiment and a growing reflection that the country's finances are on a sustainable footing. "These steps have made our exports competitive, curbed expensive imports and given an incentive to domestic industries to compete with imports," said the governor adding that it resulted in a sustained improvement in the current account which has been the key driver of the increase in SBP's reserves net of liabilities. The current account deficit recorded its first surplus in four years in the month of October. Foreign exchange reserves also stopped

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	13.36	13.61
ENDING	13.25	13.50
CHANGE	-0.11	-0.11

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 201.50	PKR 171.50	PKR 155.70
ENDING	PKR 203.00	PKR 171.70	PKR 155.10
CHANGE	+1.5	+0.2	-0.6

PAKISTAN STOCK EXCHANGE

100 Index

STARTING	39,287
ENDING	40,732
CHANGE	+1445

GOLD RATE

(10 gm)

STARTING	PKR 73,045
ENDING	PKR 73,174
CHANGE	+129



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declining in recent months, registering their first increase in nearly three years. The developments have given heart to the government's economic team that the critical deficits that were responsible for the economy's slide have finally been arrested and reversed. Baqir said that while such market developments are welcome, it is critical to ensure that the emerging financial improvements are translated into real gains for the middle and lower income classes.

Dates Can Help Alleviate Hunger: FAO

The Food and Agriculture Organization (FAO) of the United Nations has listed five reasons for dates to become food of the future, stating that dates are nutritious and important for livelihoods besides being part of a long heritage and culture, tolerant to difficult environmental conditions and have untapped potential. Discussions are now ongoing to review how traditional and local crops can make an impact in achieving Goal-2 of the Sustainable Development Goals that aims to end hunger, achieve food security and improved nutrition and promote sustainable agriculture. The FAO recently organized an activity sponsored by Saudi Arabia to promote the benefits of date production for economic, environmental and social development.

Trade Deficit Contracts Further

The trade deficit continued to shrink in November, with the pace of the declines accelerating, as per data released recently. The country's trade deficit during the July-November period fell to \$9.496 bn from \$14.47 bn in the same period last fiscal year. The widening trade gap has been at the heart of the deterioration of economy's external stability and falling foreign exchange reserves. Its decline takes pressure off the external account. The exports during the period increased by 4.8pc to \$9.55 bn compared to \$9.11 bn whereas imports, which have been on the declining trend during the fiscal year fell by 19.27pc to \$19.04 bn from \$23.59 bn last year.

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

REAL SECTOR (GROWTH IN %)	FY 2018	FY 2019_p	FY 2019_†	-
REAL GDP	5.5	3.3	6.2	-
AGRICULTURE SECTOR	3.9	0.8	3.8	-
INDUSTRIAL SECTOR	4.9	1.4	7.6	-
SERVICES SECTOR	6.2	4.7	6.5	-
CPI INFLATION (YoY%)	FY 2019_{pa}	JUL-OCT FY20_{pa}	SEP 2019	OCT 2019
NATIONAL	6.8	10.3	11.4	11.0
URBAN	7.1	10.4	11.6	10.9
RURAL	6.3	10.1	11.1	11.3
FOOD INFLATION-URBAN/RURAL	4.6/4.8	12.1/12.9	15.0/15.0	13.7/14.6
MONETARY SECTOR (IN BILLION Rs.)	FY 2018	FY 2019_p	Jul - OCT 19_#	-
CURRENCY IN CIRCULATION	476.5	562.2	381.1	-
p PROVISIONAL	-	-	-	-
pa PERIOD AVERAGE	-	-	-	-
† Target from Annual plan 2018-19- PBS	-	-	-	-
# Last weekend of the month	-	-	-	-

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

declining trend during the fiscal year fell by 19.27pc to \$19.04 bn from \$23.59 bn last year.



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Egyptian Firm Keen to Build Low Cost Housing Units

An Egyptian company recently offered to provide financial and technical assistance to Pakistan for building housing units in the federal capital to accommodate slum dwellers living in four Katchi Abadis. This is one of the key areas that came under discussion during a meeting between Prime Minister Imran Khan and Executive Chairman Orascom Telecom Media and Technology Naguib Sawiris here. Sawiris would hold meetings with the officials of housing ministry and other relevant stakeholders to materialize this initiative as soon as possible. The government would construct flats or high-rise buildings for one Katchi Abadi in the first phase to solicit other slum dwellers' trust, he added.

Frozen Food Market Between Rs. 35-50 bn

Pakistan's frozen food market is estimated to be in the range of Rs. 35-50 bn every year which includes retail of raw chicken. This is growing by at least 5pc annually. Estimating market share is difficult because there are many different segments within frozen foods and not all brands are operating in all segments. One major segment is meat which includes chicken and beef. Then wheat which includes value-added products such as paratha or rotis. The third segment is snacks which include samosas and rolls, and then there is seafood. But within the meat segment, in chicken for instance, there are raw as well as value-added chicken exports.

AUTO WORKFORCE

- Pakistan's auto sector employs a workforce of over 1.8 mn directly and 3.5 mn in ancillary production.
- There are about eight to 10 major, formal, multinational auto assemblers (i.e. Toyota, Honda, Suzuki) with a number of plants with labor-intensive assembly workshops rather than modern assembly lines.
- Some 2,000 SMEs make auto parts for the local market, of these, only 400 operate in the organized sector.

INTERNATIONAL VISTA

Six European Countries Join Barter System for Iran Trade

France, Britain and Germany recently welcomed six new European countries to the INSTEX barter mechanism, which is designed to circumvent US sanctions against trade with Iran by avoiding use of the dollar. "As founding shareholders of the Instrument in Support of Trade Exchanges (INSTEX), France, Germany and the United Kingdom warmly welcome the decision taken by the governments of Belgium, Denmark, Finland, the Netherlands, Norway and Sweden, to join INSTEX as shareholders," the three said in a joint statement. The Paris-based INSTEX functions as a clearing house allowing Iran to continue to sell oil and import other products or services in exchange. The system has not yet enabled any transactions. The accession of the six new members "further strengthens INSTEX and demonstrates European efforts to facilitate legitimate trade between Europe and Iran", France, Germany and Britain said.

Nigerian Farmers Hope to Spread Shea Butter Wealth

Surrounded by four children, Ladi Usman scoops shea nut paste from a plastic container into a metal pot on the stove in her kitchen. Squinting to keep charcoal fumes out of her eyes, she stirs it with a bamboo stick, completing the final stages of eking out the valuable shea butter oils. For the past two decades, Usman, 39, has relied on shea nuts and the oil they contain to provide a livelihood for herself and her family in central Nigeria. This is used to cook food, sold in the market and the money from it is used to take the children to school, to hospital and everything else, she said. Together with 50 other women in a cooperative in the village of Kodo, she extracts value from shea nuts that grow abundantly in Nigeria. (Note: Shea nuts are tree nuts used to produce shea nut butter, sometimes known as shea nut oil. The nut itself is not eaten in most countries. Scientific investigations have found that refined shea nut butter does not pose any known or likely allergy risk to consumers).



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Saudi Arabia Takes Over G20 Presidency

Saudi Arabia became the first Arab nation on December 1, 2019 to take over the G20 presidency as it seeks to bounce back onto the world stage following global uproar over its human rights record. The oil-rich kingdom has promoted a liberalization drive, including granting greater rights to women. The G20 presidency, which Saudi Arabia takes over from Japan, will see it host world leaders for a global summit in its capital next November 21-22.

Thousands of UK jobs at Risk as E.ON Breaks Up Npower

German energy group E.ON plans a 500 mn Pound (\$642 mn) break-up of the struggling British Npower division it inherited from Innogy, which a union said could put up to 4,500 jobs at risk. The revamp, the latest among established British retail power providers, effectively removes one of the market's so-called 'Big Six' players, which have lost customers to nimbler recent entrants and been hit by a regulatory price cap. E.ON's plan includes managing Npower's residential and small and medium-size business customers on the same platform as its own, while putting Npower's industrial and commercial customers into a separate business. The rest of Npower will be closed. The group would examine options for Npower's industrial and commercial business, the division's only profitable part, suggesting it might be sold at some point. The shake-up will result in up to 4,500 job losses at Npower, British union UNISON said, nearly 80 pc of the division's total staff.

Mexico in Recession

Mexico, Latin America's second-largest economy after Brazil, registered a recession in the first two quarters of the year and zero growth in the third, according to revised official data released recently. The downward revision confirmed the economy's weak performance under President Andres Manuel, who is struggling to deliver on his promise to kick-start growth in his first year in office. The economy contracted by 0.1pc in each of the first two quarters and stagnated in the third, according to the revised figures from the national statistics institute, INEGI.

China Pledges to Lower Trade Barriers

China recently reiterated its pledge to further widen market access for foreign capital and lower non-tariff trade barriers, as it aims to boost flagging trade amid a slowing economy and a trade war with the US. In a lengthy document that laid out areas for improvement, the State Council, the country's cabinet, said trade with neighboring countries would increase, cooperation with countries signed up to its Belt and Road infrastructure initiative would deepen and Chinese firms would further expand into markets in Asia, Africa and Latin America.

Big Four Auditors for Tougher Climate Scrutiny

European investors managing assets worth more than £1 tr (\$1.28 tr) are pressing top auditors to take urgent action on climate-related risks, warning that failure to do so could do more damage than the financial crisis. The case for tighter auditing has been bolstered by public statements from regulators and accounting watchdogs highlighting the potentially systemic risks that climate change could pose. In a letter sent in January to the so-called Big Four: EY, Deloitte, KPMG and PwC, the investors said they were concerned that climate change was being ignored in accounting and audits. The letter is being made public for the first time. The overarching thing is that no one wants another financial crisis, and this could be a lot worse, as by told by Natasha Landell-Mills, head of stewardship at asset manager Sarasin & Partners, which is spearheading the campaign by 29 investors.

ADB Set to Debate Aid to Large Economies

The Asian Development Bank must be ready to discuss whether to phase out aid to high and medium income borrowers like China, the institution's next president Masatsugu Asakawa said. Asakawa, who will take the helm in January, also said that while China's economy was likely to slow, Beijing is expected to engineer a smooth landing that will help Asia achieve a moderate pickup in growth next year. Deep-rooted, structural problems have led to a gradual decline in China's potential and real economic growth. A slowdown in Chinese growth is unavoidable. Given its huge size, a hard-landing will have a immense impact not just on China but on the global economy. It is hoped China engineers an orderly soft landing and the authorities are fully mindful of the need for that.



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MANAGEMENT OUTLOOK

Web Inventor Launches Plan to Stop Internet Abuse

World Wide Web inventor Tim Berners Lee recently unveiled a Contract for the Web to halt misuse by governments, companies and individuals, bringing several capitals and tech titans like Google aboard. "If we do not act now and act together to prevent the web being misused by those who want to exploit, divide and undermine, we are at risk of squandering its potential for good, Berners Lee said in a statement from his World Wide Web Foundation. Credited with laying the groundwork for the web, the universe of multimedia webpages accessible via the internet in 1989, the computer scientist has since last year been developing the Contract for the Web. His unveiling of the final document recently comes as government, business and civil society leaders gather in Berlin for the four-day UN Internet Governance Forum. Berners Lee said his contract, developed in cooperation with dozens of experts and members of the public, is a roadmap to build a better web. He called on governments to strengthen laws and regulations and companies to ensure pursuit of profit is not at the expense of human rights and democracy. "Citizens must hold those in power accountable, demand their digital rights be respected and help foster healthy conversation online," Berners Lee added. More than 150 organizations including companies like Google, Microsoft, Facebook and Reddit and interest groups like Reporters Without Borders and the Electronic Frontier Foundation have backed the plan. Meanwhile, the governments of France, Germany and Ghana are on board, as are thousands of individuals.

Manage Your Emotions

Negotiations can get emotional, to say the least. Whether you are asking for a raise, more resources for your team or to restructure your position, you might feel anxious, reluctant or worried. But you would not be successful if you are worked up, so take steps to handle your emotions. Before the negotiation, ask yourself how your counterpart might

respond and why. Doing so will help you identify potential setbacks and gather additional information to respond to their challenges. The more you prepare, the less anxious you will feel. During the negotiation, if you find yourself getting upset or nervous, pause and reflect on the underlying reasons and formulate a strategy to address them. After the negotiation, try to avoid carrying negative emotions. Reflect instead on the moments you were most proud of during your interaction and focus on how you will use your experience to get the result you want in the future. (This tip is adapted from *3 of the Most Common Challenges Women Face in Negotiations*, by Mara Olekalns et al.)

SNIPS

Environmental Compliance

Nearly half of professionally managed assets in Europe follow some form of sustainable guidelines, according to the Global Sustainable Investment Alliance.

How to Respond to a Surprise in a Negotiation

When you are caught off guard in a negotiation, it is normal to freeze up. After all, you were not prepared for your counterpart to change the deadline, take back a promise or deliver an ultimatum. If this happens to you, try to avoid immediately jumping to a conclusion. Instead, suspend judgement, consider "I wonder what led them to say that," and then ask at least one question. For example, if an employee unexpectedly demands a raise by saying, "I have been undervalued for too long," try not to shut down the request, even if you think it is off-base. Ask something like: "Can you walk me through your thinking? What would getting a raise mean to you personally?" This kind of questioning might surface the employee's real need perhaps, to be seen as an important contributor and then you could negotiate an adjustment around the employee's visibility rather than their pay. (This tip is adapted from *When Surprise Is a Good Negotiation Tactic*, by Roi Ben-Yehuda and Tania Luna.)

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