



Economic Letter

a weekly publication of The Institute of Bankers Pakistan*

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Volume 14, Issue No. 51 | Date: December 20, 2019

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

PAKISTAN OVERVIEW

Economy to Grow by 3.5pc, Says SBP Governor

State Bank of Pakistan (SBP) Governor Dr. Reza Baqir expects the economy to grow 3.5pc in spite of an unprecedented slowdown that has seen the manufacturing output decline sharply and private investment dry up at the cost of substantial job losses. The government is targeting economic output to increase by 2.4pc, the slowest in many years whereas multilateral lenders anticipate the GDP to grow at 2.8pc. His optimism stems from his reading of the economic stabilization achieved during the recent months in the wake of fiscal and monetary reforms implemented under the \$6 bn loan deal with the International Monetary Fund.

Rs. 800 bn of Circular Debt to be Shifted to Public Debt

Estimating power sector losses rising by 4pc since the financial year 2016 to 29pc, the Asian Development Bank (ADB) and the government have agreed to raise about Rs. 469 bn revenues through consumer tariff during the current fiscal year and shift about Rs. 800 bn of the circular debt stock to public debt in three years. This is part of the Energy Sector Reforms and Financial Sustainability Program under which the Manila-based lending agency disbursed \$300 mn loan to Pakistan last week for 25 years including five years of grace period at 2pc interest rate. The plan will include (i) using the sales proceeds of some generation assets (ii) divesting power subsector transmission and distribution of SOEs (iii) rolling tariff subsidies preferably into a social assistance program targeting the poorest households and (iv) converting portions of Power Holding Private Limited debt stock into public debt. The new accumulation of circular debt has to be kept below Rs. 124 bn for FY2020 and PHPL debt will be reduced and assumed as public debt. *(Note: Circular debt is a situation in which a string of debtors and creditors exist in a fashion such that the net final creditor in the string is indebted to the first creditor. Every member is both a debtor and a creditor).*

ADB for Diversification to Boost Exports

Pakistan is required to undertake structural reforms to improve its exports for attaining a sustainable economic growth rate of above 3.8pc, suggests a new study released by the Asian Development Bank on recently. The study: Why Pakistan's Economic Growth Continues to be Balance of Payments Constrained, says this requires an upgrade in the country's international specialization profile. A more diversified economy results in more diverse exports and this is required to acquire the wider set of productive capabilities that is needed to export goods with a higher level of sophistication, it noted. The first steps towards export diversification could be to identify causes of lost export value in important industries like glass and stone, mineral products, plastics and chemicals and explore options for moving into new export products that require productive capabilities, similar to those used for existing Pakistani exports, but have a higher level of

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

MONETARY POLICY RATE

Effective from July 16, 2019 - 13.25pc

KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	13.24	13.49
ENDING	13.20	13.45
CHANGE	-0.04	-0.04

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 204.00	PKR 172.50	PKR 154.70
ENDING	PKR 203.50	PKR 172.10	PKR 154.70
CHANGE	-0.5	-0.4	0

PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	40,916
ENDING	40,832
CHANGE	-84

GOLD RATE

	(10 gm)
STARTING	PKR 72,488
ENDING	PKR 73,260
CHANGE	+772



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sophistication within the product space. On average, over the last decade, Pakistan has lost global market share by 1.45pc per annum, with foreign exchange reserves further declining from \$9.8 bn at the end of fiscal year 2018 to \$7.3 bn at the end of fiscal year 2019, only enough to finance about 1.4 months of imports.

Foreign Investment Jumps 78pc on Telecom Inflows

Foreign Direct Investment (FDI) in to the country jumped by 78pc in the first five months of current fiscal year mainly on account of large inflows in the telecommunication sector. The massive jump in the FDI comes after one-off payments were made by the telecom companies: Telenor, Warid and Zong for license renewal during the first five months of current fiscal year. Latest data released by the State Bank of Pakistan (SBP) showed the country received \$850 mn in FDI during July-November period against \$477.3 mn in the same period last fiscal year. The data further revealed that net inflows of \$19.5 mn in the portfolio investment account, during the first five months of current fiscal year compared to an outflow of over \$330 mn in the corresponding period last year, helped bolster the overall tally of foreign investment. The FDI inflows in November also increased to \$285.4 mn compared to \$200 mn in the same month last year, largely on account of a \$70 mn capital injection made by Telenor into its bank.

Pakistan Can Be Food Basket of World

China's technological advancement and expertise can help Pakistan to serve as a food basket to this part of the world. Lahore Chamber of Commerce and Industry (LCCI) President Irfan Iqbal expressed these views while addressing a six-member trade delegation from China recently. He said that Pakistan has vast fertile land, all weathers and one of the best canal systems in the world but has been unable to reap benefits due to lack of modern technologies.

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	NOV 2019
NATIONAL	6.8	10.3	11.4	12.7
URBAN	7.1	10.4	11.6	12.1
RURAL	6.3	10.1	11.1	13.6
FOOD INFLATION-URBAN/RURAL	4.6/4.8	12.1/12.9	15.0/15.0	16.6/19.3
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



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Cement Sales Rise

Cement sales have risen by 5.8pc to 20.5 mn tonnes during the Jul-Nov period. Of the total sales, domestic sales increased 3pc to 16.9 mn tonnes while exports jump 21.5pc to 3.6 mn tonnes.

LSM Contracts Shrink

The country's large-scale manufacturing (LSM) shrank for seventh month in a row, raising fears. The LSM Index contracted by 7.97pc year-on-year in October, the Pakistan Bureau of Statistics (PBS) reported recently. The data further showed that between July to October, big industry output declined by 6.48pc on a year-on-year basis. The latest monthly decrease was mainly led by 41.77pc plunge in automobile sector, 39.28pc in electronic products, followed by 11.73pc in petroleum products and 8.25pc in food products.

Shale Gas Drilling Begins in Hyderabad

State-run Oil & Gas Development Company Ltd (OGDCL) recently announced to have started drilling of first shale gas well in Hyderabad for exploration of unconventional hydrocarbon deposits. The company said in a statement that it had technically planned to drill the well, named KUC-01, in two phases. The first well is planned to be drilled in vertical section and fracturing operations will be carried after reservoir evaluation, it said, adding that the drilling operations commenced recently. Based on the outcome of the reservoir evaluation and fracturing job, further technical evaluations will be carried out that will decide entering the second phase, which will include drilling a horizontal well section and further fracturing operations, the company said.

State Bank Delegates FCY Loan Registration Function

In order to facilitate the corporate entities for raising foreign currency (FCY) loans from abroad and further improve the business environment in the country, State Bank of Pakistan in its latest move, has delegated the registration of FCY loans from abroad to banks. Previously, it was required to register the loans above USD 1 mn, with Exchange Policy Department, State Bank of Pakistan whereas the loans up to USD 1 mn were handled by the

respective banks. According to new instructions, the respective banks will register the FCY loans irrespective of the amount. However, the banks will have to ensure that the FCY loans are in compliance with the relevant laws and regulations in force. Further, the minimum tenor of FCY loans, raised by corporate entities for working capital needs and by the banks for liquidity management purposes, has been reduced to one month.

FBR's Target of 4 mn Tax Returns

The FBR has set a target of tax returns of 4 mn for tax year 2019. The board had received 2.51 mn tax returns for the first time in its history for TY18 as against 1.49 mn returns filed for TY17.

Pakistan's HDI: Some Progress

The new Global Human Development (GHD) Report is out. With the Human Development Index (HDI) value of 0.560 for 2018, Pakistan has slipped one step on the ladder of the 189 countries to be placed at 152, almost at the bottom of 37 nations categorized by medium human development and just a notch away from the group with low human development. The report issued by UNDP every year is considered to be a good measure of progress made by countries to reduce income inequality, cut multidimensional poverty, improve gender equality and enhance public access to education and healthcare. The report shows Pakistan has made some progress over the years, enhancing its HDI value by 38.6pc from 0.404 in 1990 to 0.560 as life expectancy at birth has increased by seven years, expected years of schooling by 3.8 years and GNI per capita by about 62.4pc. Nevertheless, the country has not fared very well when compared with other SAARC nations, which have performed much better, and is 13pc below the average HDI of South Asia. Nepal, which is closest to Pakistan in HDI rankings, sits at 147. Bangladesh and India have jumped one space each to position at 135 and 129. Bhutan did not change its position at 134. Sri Lanka and Maldives are the only two South Asia nations to be classified among countries in the high human development group at 71 and 104. Iran, which has suffered under international sanctions for years, is ranked at 65.



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INTERNATIONAL VISTA

Washington Appeals WTO Ruling in India Steel Dispute

Washington is appealing a World Trade Organization (WTO) ruling in a dispute over import duties on Indian steel products, despite having recently forced the body's appeals unit to suspend operations. Last month, a WTO panel found that Washington had failed to fully comply with a five-year-old ruling ordering it to bring the duties it slaps on certain steel imports from India into line with global trade rules. The United States announced recently it would appeal the November ruling during a meeting of the WTO's Dispute Settlement Body – sometimes called the supreme court of world trade, according to a Geneva trade official. But the DSB no longer has a functioning appellate branch, after its activities effectively ground to a halt on December 11 following years of relentless US opposition.

German Business Confidence Brightens

Confidence among German business leaders rose in December, a closely-watched survey showed recently, in line with other recent positive economic indicators, as the geopolitical risks to Europe's biggest economy appear to ease. The Ifo institute's monthly business climate index climbed 1.2 points to 96.3 this month, its strongest reading since June and higher than forecasts from analysts surveyed by Factset. The mood ahead of Christmas has got noticeably better among German executives; German business is heading into the new year with more confidence. Looking to different elements of the survey, companies' assessment of both their present economic situation and the outlook for the coming months brightened. Germany's powerful industrial sector has suffered from uncertainty over trade conflicts, notably between the US and China and BREXIT.

Weak Household Consumption to Curb India's Growth: Moody's

Moody's Investors Service recently said that India's weak household consumption will curb economic growth and weigh on the credit quality of Indian issuers in a range of

sectors. Moody's has lowered its GDP growth projection for India for the fiscal year ending March 2020 to 4.9pc from 5.8pc. The major factors responsible for weakening economic growth were rural financial stress, low job creation and liquidity constraints, Moody's Investors Service said in a report. "What was once an investment-led slowdown has now broadened into weakening consumption, driven by financial stress among rural households on the back of stagnating agricultural wage growth and constrained productivity, as well as weak job creation due to rigid land and labor laws," said Moody's Analyst Deborah Tan. Household consumption has been the backbone of India's growth, making up about 57pc of GDP in FY2018-19. Like other major markets, India's growth has decelerated, with GDP growth falling to 4.5pc in Q3 2019 from 5pc in Q2 2019. The report further noted that the credit crunch among non-bank financial institutions (NBFIs), the major providers of retail loans in recent years, has 'exacerbated' this slowdown.

Trade War Sets Trend for China's Export Diversification

China will probably buy more US goods next year, but that would not reverse the impact of the trade war, which has seen China pursue export diversification as breakthrough. The diversification trend of China's exports has been notably obvious so far this year. While bilateral trade between China and the US witnessed a remarkable decline, China's trade with the EU and the Association of Southeast Asian Nations (ASEAN) jumped considerably. According to the latest statistics from the General Administration of Customs, in the first 11 months of this year, China's trade with the US fell 11.1pc year-on-year, with its exports to the US down by 8.4pc. Meanwhile, China's trade with the EU rose 7.7pc, with its exports to the EU up 9.5pc, while its trade with the ASEAN increased 12.7pc, with its exports up 16.9pc. Although the US and China have reached a cease-fire trade deal, the latter still needs to become more flexible in responding to America's China policy by improving its trade structure, which was too dependent on the US for a long time. China's heavy reliance on the US market for its exports in some areas is nothing new, and for years, the country had been trying to change the situation, but only to see little results. However, due to the pressure of the trade war,



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Chinese companies have been forced to make adjustment toward diversifying over the past year. For Chinese exporters, how to explore new markets and develop new products based on the market needs will be the main challenges facing them in the year to come.

Delivery Hero Orders Up South Korea's Woowa in World's Biggest Food App Deal

Germany's Delivery Hero has agreed to buy South Korea's top food delivery app operator Woowa Brothers for \$4 bn and form a joint venture to take on heavyweights like Uber Eats in other fast-growing Asian markets. The deal, announced recently by Woowa, is the biggest global play so far for a food delivery app, one of the hottest tech sectors around. Woowa said the sale was a survival strategy in an intensely competitive market and also the biggest deal involving a South Korean internet firm. South Korea, with a dense population and a high smartphone penetration rate, is the world's No 4 market for online food orders. A huge jump in the number of single people living on their own is also propelling the boom in food delivery services.

MANAGEMENT OUTLOOK

TIPS

Simple Ways to Show Appreciation For Your Colleagues

We often use the words 'recognition' and 'appreciation' interchangeably, but there is a big difference between them. The former is about giving positive feedback based on results or performance. The latter is about acknowledging a person's inherent value. If you focus solely on recognition, or praising positive outcomes, you miss out on opportunities to connect with and support your team members. Here are a few simple ways to show appreciation for those around you. First, listen. One of the best things you can do for the

people you work with is to put down your phone, turn away from your computer and genuinely listen to them. Also, tell people what you value about them. Doing this proactively — not because someone did something great or because you want something from them — is an incredibly powerful gift. It can positively affect how your colleagues feel about themselves, your relationship with them and the culture of the team. Lastly, check in with people. Show them that you care by asking how they are doing (and meaning it). (This tip is adapted from *Why Employees Need Both Recognition and Appreciation*, by Mike Robbins-HBR.)

SNIPS

Holiday Rush

The American Psychological Association reports that 38pc of people find their stress levels increase during the holiday season.

Help Your Remote Team Members Feel More Connected

If you manage a remote team, you know how isolating it can be — for you and your employees. Managers can help by setting the stage for everyone to get to know each other better. Start every call with something that helps team members learn about each other. For example, you might ask people to share a 'song of the week' that they have enjoyed listening to. When hosting a team meeting via a conference line, open the line 10 minutes early and leave it open for 10 minutes after the call ends so that team members can chat. When remote workers travel to various sites, encourage them to hold 'office hours' so teammates can stop in and say hello. It can be awkward to see people after a long break, so include a relationship-building opportunity in those early in-person meetings, and save the unstructured activities for later when people have gotten over their awkwardness. This may feel like a lot of work, but it will help your virtual workers feel more connected to their teammates and the organization. (This tip is adapted from *How Remote Workers Make Work Friends*, by Beth Schinoff, Blake E. Ashforth and Kevin Corley-HBR.)

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