



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 12, Issue No. 51 | Date: December 22, 2017

PAKISTAN COMPENDIUM

BANKING SCENARIO

Deposits Folder

According to the weekly statement of position of all scheduled banks for the week ended November 30, 2017 deposits and other accounts of all scheduled banks stood at Rs. 11,969.466 bn after a 1.80 pc increase over the preceding week's figure of Rs. 11,759.157 bn. Compared with last year's corresponding figure of Rs. 10,555.726 bn, the current week's figure was higher by 13.40 pc. Deposits and other accounts of all commercial banks stood at Rs. 11,877.726 bn against preceding week's deposits of Rs. 11,668.518 bn, showing a rise of 1.80 pc. Deposits and other accounts of specialized banks stood at Rs. 91.741 bn, higher by 1.21 pc against previous week's figure of Rs. 90.639 bn.

Shanghai Free Trade Zone to Benefit Pak Businessmen: China

The Director General of Shanghai Free Trade Zone (SHFTZ) has said that Shanghai Pilot Free Trade Zone is an important part of the China's One Belt One Road project, urging Pakistani entrepreneurs to benefit from it. While briefing a group of Pakistani newsmen on the Economic Free Zone, he said that it would have numerous advantages for Pakistani businessmen and would provide them an opportunity to introduce their products and expand their ventures outside of their borders. So far 16 countries from the Central and Eastern Europe have their presence and pointed that special facilities are being extended to foreign investors, besides a one-window operation to cut down business costs and time, adding that SHFTZ would like to have a Pakistani pavilion along with those of other countries and it would be a big boost for Pakistani companies.

Asian Development Bank will Provide Assistance to Pakistan

Asian Development Bank (ADB) country director Xiaohong Yang recently assured Prime Minister Shahid Khaqan Abbasi that the bank will continue providing financial and technical assistance to Pakistan. The ADB country director assured future cooperation in all areas including, energy and gas sectors. According to the report, she appreciated the country's progress in the energy sector. She said the improvement in the power sector has not only brought relief to domestic consumers but also leading to growth in large-scale manufacturing.

Yuan May Replace Dollar in Pakistan-China Trade

Minister for Planning and Development Ahsan Iqbal said recently that the government was examining a proposal to replace the US dollar with the Chinese yuan for trade between China and Pakistan. He was talking to journalists after the

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 months)

	Bid%	offer%
BEGINNING	5.95	6.20
ENDING	5.96	6.21
CHANGE	+0.01	+0.01

Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
BEGINNING	PKR 145.75	PKR 128.25	PKR 109.80
ENDING	PKR 146.00	PKR 129.50	PKR 110.30
CHANGE	+0.25	+1.25	+0.5

Pakistan Stock Exchange

	100 Index
BEGINNING	38,645
ENDING	39,428
CHANGE	+783

Gold Rate

	(10 gm)
BEGINNING	PKR 46,457
ENDING	PKR 46,757
CHANGE	+300



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formal launch of Long Term Plan (LTP) for the China-Pakistan Economic Corridor (CPEC) 2017-30 signed by the two sides on Nov 21. Newly-appointed Chinese Ambassador Yao Jing and officials of the provincial governments also attended the launching ceremony. Asked if the Chinese currency could be allowed for use in Pakistan, Mr. Iqbal said the Pakistani currency would be used within the country, but China desired that bilateral trade should take place in its currency — known as Renminbi (RMB) or yuan — and “we are examining the use of RMB instead of the US dollar for trade between the two countries”. He said the use of RMB was not against the interest of Pakistan, rather it would benefit the country.

Farmers Keen to Adopt New Seed Technology

Pakistan with a Rs. 220 bn seed market potential, is attracting multinational and local seed companies. At present, more than 750 private seed companies are officially registered and half of them are functional. Both local and foreign experts agree that the farming community is keen to adopt new technology and improved seed varieties. Lance Wang, vice-president of Monsanto’s Asean and Pakistan chapter, is impressed by the willingness of the local farming community to embrace new technology, but regrets the slower rate of mechanization of the agriculture sector. Pakistan is among the top 10 agricultural producers of many crops, including cotton, wheat, sugarcane and rice.

Fintech’s Silent Revolution

Enticed by disruptive and yet innovative technology, the financial system is reorganizing itself to regain its robust health, reduce costs and make its services more efficient and affordable after the 2008 crisis. Fintech is ushering in a silent revolution. Its outreach is expanding and it now embraces activities that can be broadly categorized into: Lending tech, Payments tech (billing/remittance), Crypto currencies (bitcoin), Wealth Management (Robo advisors), Crowd funding, Insurance and Regtech (regulations). Pakistan’s financial sector has responded to the challenges of applying these new technologies by strengthening its human resource and developing customer interface platforms. Most banks now have Chief Innovation Officers or Digital Initiative departments. Various online Payment Systems and Mobile Apps have been developed to encourage footfall in branches.

Glimpses of SBP’s Quarterly Performance Review of the Banking Sector, Q3CY17 (July-September, 2017)

- The growth in the banking sector has been supported by the expanding banking sector infrastructure. The banking sector has added another 115 branches and 122 ATMs during Q3CY17; while 122 additional branches have been linked to the online network.
- Share of fixed investment (long-term) loans in total loans continues to rise indicating improved business confidence.
- The overall risk profile of the banking sector remains within tolerable bounds in Q3CY17 characterized by high capital adequacy ratio, improving asset quality and favorable liquidity conditions.
- Capital Adequacy Ratio (CAR) of the banking sector is 15.4 pc in Q3CY17, well above the minimum regulatory required level of 10.65 pc.
- In order to deliver better performance, banks need to calibrate the changing macroeconomic environment in their business models to capitalize the emerging opportunities as arising from, generally, growth in the economy and, particularly, from the China Pakistan Economic Corridor (CPEC).
- Within customers’ deposits, saving deposits have increased by 1.9 pc (PKR 88.9 bn). The fixed deposits expanded by PKR 59.9 bn (2.2 pc growth) during Q3CY17.
- Saving deposits and current account (non- remunerative) deposits’ share in customers’ deposits stand at 37.0 pc and 31.0 pc, respectively.
- It is pertinent to mention Islamic banking institutions have become a key source of deposit mobilization. In Q3CY17, IBIs have generated 24.7 pc of the total quarterly deposits inflows of PKR 36.1 bn. In outstanding term, Islamic banking institutions’ share in total banking sector deposits stand at 13.7 pc.

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The demand for a swift payment mechanism is evident from the quick adaption of digitization efforts and rising e-commerce platforms. The latest State Bank's Annual Performance Review states that "e-Commerce is picking up with 571 merchants offering their products online. During FY2017, 1.2 mn transactions valued at Rs9.4 bn were processed through e-commerce". The SBP report further states that "25 financial Institutions provide internet banking and 18 have mobile apps." During FY17, 25.2m internet banking transactions were processed valuing at Rs. 969 bn. Mobile banking accounted for 7.4 mn transactions valuing Rs. 141 bn, representing an annual volume growth of 32 pc and 12 pc respectively.

World Bank Approves \$825 Mn for Pakistan

The World Bank approved a package of \$ 825 mn to improve the national power transmission system in Pakistan, and enhance health and education service delivery by strengthening financing management and procurement systems. The World Bank approved \$ 425 mn National Transmission Modernization Project-1 (NTMP-1) for national transmission line and \$ 400 mn Public Financial Management (PFM) reform package for enhanced health and education service delivery, according to a press release issued in Washington.

NPLs Move Down to 9.2 pc, Lowest Since 2008

The Non-Performing Loans (NPLs) to gross advances (infection) ratio has moved down to 9.2 pc by end of September 2017 from 9.3 pc at the end June 2017, showing improvements in asset quality, official data revealed. With cash recoveries outweighing fresh NPLs, seasonal reversals of agricultural NPLs and upgrade of some classified loans, the stock of NPLs decreased by Rs. 3.0 bn to reach Rs. 611.8 bn during Q3CY17, according to the Quarterly Performance Review (QPR) of the Banking Sector by State Bank of Pakistan (SBP) for the quarter ended on September 30, 2017. According to the report, the aging of NPLs shows that most of the current level of the NPL corresponds to the period of build-up witnessed in Calendar year 2009 to 2012. The decline in NPLs to Loans ratio was the lowest since Q4 of Calendar Year 2008, the report revealed. With improvement in provisions coverage (Provisions to NPLs) ratio to 85.3 pc compared to 83.7 pc in the last quarter, net NPLs to

net-loans ratio has also decreased to 1.5 pc in Q3CY17 which was 2.1 pc in Q3CY16. The easy monetary policy stance, as manifested in lower weighted average lending rates (WALR), has led to improvement in the repayment capacity of the borrowers, the report said adding that there was a downward trend in both the number of non-performing borrowers and quantum of fresh NPLs.

Glimpses of SBP's Quarterly Performance Review of the Banking Sector, Q3CY17 (July-September, 2017)

- There has also been expansion in the plastic cards, which is in tandem with the increase in credit card loans. Moreover, the growing banking sector has absorbed an additional 7,088 employees during the reviewed quarter.
- The market-based liquidity, in response to calibrated interventions by SBP, has remained satisfactory as limited upward pressure has been witnessed in the overnight repo rate. Average daily overnight repo rate at 5.79 pc has stayed much closer to SBP's target rate of 5.75 pc than the previous quarter's daily average of 5.82 pc and last year's corresponding average daily rate of 5.85 pc.
- The seasonal pattern along with robust growth in Large Scale Manufacturing Index (LSM) observed during Jul-Sep 2017 suggests that advances to private sector will rise in Q4CY17.
- The core funding source of the banks i.e. deposits are likely to improve in the upcoming quarter for two reasons. First, banks would proactively seek to mobilize deposits in order to meet the anticipated rise in private sector advances. Second, the expected increase in advances, would further improve deposits base due to the feedback effect.



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INTERNATIONAL ARENA

Brexit: What's Happening Now?

The UK has voted to leave the European Union. It is scheduled to depart at 11 pm UK time on Friday 29 March, 2019. The UK and EU have now agreed on the three 'divorce' issues of how much the UK owes the EU, what happens to the Northern Ireland border and what happens to UK citizens living elsewhere in the EU and EU citizens living in the UK. Talks are now moving on to future relations - and a plan for a two year 'transition' period to smooth the way to post-Brexit relations.

What does Brexit mean?

It is a word that has become used as a shorthand way of saying the UK leaving the EU - merging the words Britain and exit to get Brexit, in the same way as a possible Greek exit from the euro was dubbed 'Grexit' in the past.

But negative predictions were wrong, with the UK economy estimated to have grown 1.8 pc in 2016, second only to Germany's 1.9 pc among the world's G7 leading industrialized nations. The UK economy has continued to grow at almost the same rate in 2017. Inflation has risen since June 2016 to stand at 3.1 pc - the highest for nearly six years - but unemployment has continued to fall, to stand at a 42-year low of 4.3 pc. Annual house price increases have fallen from 9.4 pc in June 2016 but were still at an inflation-beating 7 pc in the year to October 2017, according to official ONS figures. The European Commission said recently that it wants a post-Brexit transition period, during which Britain must continue to obey EU rules, to finish at the end of 2020.

The Future of Electric Cars

Automakers with ambitious plans to roll out more than a hundred new battery-powered models in the next five years appear to be forgetting one little thing: Drivers aren't yet buzzed about the new technology. Electric cars — which today comprise only 1 pc of auto sales worldwide, and even less in the U.S.—will account for just 2.4 pc of U.S.

demand and less than 10 pc globally by 2025, according to researcher LMC Automotive. But while consumer appetite slogs along, carmakers are still planning a tidal wave of battery-powered models that may find interested buyers few and far between. Automakers are rushing to get in the game with their own all-electric models. General Motors Co. has announced plans to roll out 20 models by 2023, while Ford and Volkswagen AG are among those planning new electric lineups in China. Toyota Motor Corp. this week promised more than 10 electric models by early next decade. In total, 127 battery-electric models will be introduced worldwide in the next five years, Thai-Tang said, with LMC predicting pure electric offerings will increase by more than five-fold to 75 models in the U.S. alone.

Saudi Monarch Approves \$19 bn Stimulus for Private Sector

Saudi Monarch has allocated 72 bn riyals (\$19.2 bn) of stimulus fund to support the Saudi private sector. The package aims to boost the role of the private sector in light of economic reforms to diversify the Saudi economy away from oil following a slump in crude prices. The funds will be used to finance 16 initiatives, the largest of which earmarks \$5.7 bn to provide subsidized housing loans to citizens, according to the official news agency SPA. The decree states that \$1.33 bn will be used as a first installment for the newly established exports promotion fund which will eventually have capital of \$8 bn.

HANDY TIPS

QVGA	Quarter Video Graphics Array
WVGA	Wide Video Graphics Array
WXGA	Wide-screen Extended Graphics Array
USB	Universal Serial Bus
WLAN	Wireless Local Area Network
PPI	Pixels Per Inch
LCD	Liquid Crystal Display
HSDPA	High Speed Down-Link Packet Access



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MANAGEMENT & INFOTECH CORNER

Learn to Streamline From Customers

Customers appreciate simplicity, but figuring out how to streamline can be difficult for many companies. Research has found that the most important factor in creating customer “stickiness” is “decision simplicity”, i.e. the ease of getting credible information in the midst of marketing noise. Engage your customers in simplifying your business — and make it easier for them to work with you — with these tips.

Figure out what your customers do all day: What do they think about first in the morning? What’s the toughest part of their day? Try giving your customers a diary to track their activities, or spend a day shadowing a customer, to understand their unmet needs.

Listen to your critics: Consider asking noncustomers why they don’t do business with you. Intentionally including people who dislike your product or service in a focus group can lead to more provocative conversations. Better yet, invite naysayers to join planning meetings to discuss which enhancements could change their perception of your organization. (Source: *Let Your Customers Streamline Your Business*, by Ron Ashkenas and Lisa Bodell-HBR)

Master the 3 M’s of Motivation

Smart leaders can turn change from exhausting to exhilarating by asking employees to open their imaginations. This type of strong work motivation stems from the three M’s: mastery, membership and meaning. (Money is a distant fourth.)

MASTERY: Help people develop deep skills. Even in the most seemingly routine areas, when people are given stretch goals and difficult problems to tackle, they can do things faster, smarter and better.

MEMBERSHIP: Foster community by honoring individuality and encouraging employees to bring outside interests to work. Create frequent opportunities to meet people across the organization to help your team get to know one another more deeply.

MEANING: Reinforcing a larger mission and purpose can make even mundane tasks feel significant. Discussing how your products or services can improve the world affects employees’ priorities and decisions. (Source: *Three Things That Actually Motivate Employees*, by Rosabeth Moss Kanter-HBR)

KALEIDOSCOPE

Currencies Named After People

Christopher Columbus, known in Spanish as Cristobal Colón, gave his name to the currencies of Costa Rica and El Salvador: the Colón.

Francisco Hernández de Córdoba gave his name to the currency of Nicaragua: the Córdoba.

Lempira, a war chieftain of the Lencas of western Honduras in Central America during the 1530s, gave his name to the currency of Honduras: the Lempira.

Antonio José de Sucre gave his name to the currency of Ecuador: the Sucre.

Simón Bolívar gave his name to the currency of Venezuela: the Bolívar.

Vasco Núñez de Balboa gave his name to the currency of Panama: the Balboa.

(All these countries are from Latin America)

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Published by: The Institute of Bankers Pakistan, M.T. Khan Road, Karachi 74200, Pakistan

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