



Economic Letter

a weekly publication of The Institute of Bankers Pakistan*

Page No. 01

Volume 14, Issue No. 52 | Date: December 27, 2019

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

PAKISTAN OVERVIEW

FATF Response to Pakistan Progress Report Received

Responding to the Pakistan progress report, a regional affiliate of the Financial Action Task Force (FATF) has forwarded 150 comments and clarifications in all sectors, but mostly related to the action taken by the country against banned groups and proscribed persons. Pakistan had submitted the initial progress report to the Asia Pacific Group (APG) of the FATF on Dec 3 regarding implementation of the action plan, which related to shortcomings pointed out at the previous review. The FATF response was received recently and forwarded to relevant departments accordingly. According to sources privy to the development, it has been decided that an internal meeting, to be chaired by the director general of the Financial Monitoring Unit (FMU), will be held in Islamabad and the replies will be collected next week.

Govt's Resolve to Implement Reforms Could Mitigate Economic Risks: IMF

Slow economic growth, failure to get out of the grey-list are some of the major risks faced by the country in its stabilization program under the \$6 bn Extended Fund Facility (EFF), said the International Monetary Fund (IMF) recently. The risks were highlighted by IMF Resident Representative Teresa Daban Sanchez, while clarifying the confusions around the first review of Pakistan's economic performance under the EFF. She was speaking at a session organized by the Sustainable Development Policy Institute. At the outset, Sanchez said that Pakistan's overall macro-economic performance remained satisfactory while revenue collections increased substantially, and there is improvement in the trade deficit and net foreign assets as well.

Family-dominated Boards Not Good For Banks: SBP Governor

State Bank of Pakistan Governor Dr. Reza Baqir recently said in a seminar that concentration of banks' shareholding to a few families and their nominees on the boards is against good governance practices and may adversely impact the effectiveness of the board. During his inaugural address in a seminar on 'Emerging Trends in Good Governance of Banking Sector' in South Asian Association for Regional Cooperation (SAARC) countries highlighted the importance of efficient and robust governance structure in banking for sustainable economic growth. The seminar was also attended by delegates from Afghanistan, Bangladesh, Bhutan, Sri Lanka and Nepal. Dr. Baqir said that independent directors play an important role in banks by exercising their neutral judgment and protect the interest of minority shareholders. He also mentioned that corporate governance practices in public sector banks are generally weak and less transparent due to likely political intervention in internal affairs. He emphasized that boards with female representatives and diversified experience in the fields of IT, risk management, finance and

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	13.20	13.45
ENDING	13.23	13.48
CHANGE	+0.03	+0.03

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 203.50	PKR 172.10	PKR 154.70
ENDING	PKR 202.00	PKR 172.00	PKR 155.20
CHANGE	-1.5	-0.1	+0.5

PAKISTAN STOCK EXCHANGE

100 Index

STARTING	40,832
ENDING	40,848
CHANGE	+16

GOLD RATE

(10 gm)

STARTING	PKR 73,260
ENDING	PKR 75,360
CHANGE	+2100



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

Page No. 02

Volume 14, Issue No. 52 | Date: December 27, 2019

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

economics can play a more effective role in achieving the organization's overall strategic objectives. Dr. Baqir said that corporate governance is cornerstone for the success of any business entity. However, for financial institutions, its importance becomes even more critical as banks are highly leveraged entities facing a wide range of risks in their day-to-day operations. In his closing remarks, he suggested that Terms of Reference (ToRs) of SAARC Finance network may be revisited to align the same with emerging challenges faced by central banks in the region.

Pakistan's American Cattle Imports

The first ever shipment of American cows came to Pakistan via air cargo in 2016. But that experiment was not too successful. This month, according to a recent news by Bureau of South and Central Asian Affairs of the US State Department, the first-ever commercial sea shipment of 1,765 U.S. Holstein cows has arrived in Pakistan. The biggest reason why the first few orders of American cows were not able to create further demand in Pakistan was the fact that they were not put in the best of farm management environment. In the dairy farm segment, breed is only one factor of success. According to consensus estimates, above a certain threshold of milk yield, farm success mainly depends on farm management rather than animal genetics; say about 15pc success contribution is attributed to genetics and 85pc to farm management. But this does not mean that genetics are not important.

SBP Accords Approval to 'NIFT ePay'

The State Bank of Pakistan (SBP) has granted an approval for commencement of pilot operations of National Institutional Facilitation Technologies' (NIFT) e-Commerce payment gateway called 'NIFT ePay'. NIFT is the first local account-based 'e-Commerce Payment Gateway' to get an approval for the pilot launch under the Payment System Operator/Provider (PSO/PSP) rules. NIFT ePay's primary focus is to execute interoperable

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	0.9	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-NOV FY20_{pa}	OCT 2019	NOV 2019
NATIONAL	6.8	10.8	11.0	12.7
URBAN	7.1	10.8	10.9	12.1
RURAL	6.3	10.8	11.3	13.6
FOOD INFLATION-URBAN/RURAL	4.7/4.8	13.0/14.2	13.7/14.6	16.6/19.3
	FY 2018	FY 2019_p	Jul - DEC 19_#	-
CURRENCY IN CIRCULATION (IN BILLION Rs.)	476.5	562.2	513.5	-
P PROVISIONAL	-	-	-	-
PA PERIOD AVERAGE	-	-	-	-
† Target from Annual plan 2018-19- PBS	-	-	-	-
# Last weekend of the month	-	-	-	-

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



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

Page No. 03

Volume 14, Issue No. 52 | Date: December 27, 2019

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

and secure digital commerce payments in Pakistan using details of bank account or wallet. This provides an opportunity to the customers who do not have conventional instruments for digital payments such as Debit or Credit Card to conduct e-commerce transactions directly through their transactional accounts and wallets. NIFT is an existing PSO/PSP offering nation-wide cheque clearing services to financial organizations across Pakistan. NIFT has been providing consistent services to the financial industry over the past two decades and it is now creating a reliable, secure and interoperable payments system, which enables different digital payments use cases in Pakistan.

Private Sector Borrowing Falls 71pc

Private sector borrowing in the first five months of the fiscal year declined by more than 71pc compared to same period last year. The latest data released by the State Bank of Pakistan (SBP) showed the private sector borrowed Rs. 88.1 bn during July-Nov FY20 compared to Rs. 394.8 bn in the same period last fiscal year. Private sector has shied away from borrowing funds amid high interest rates — 13.25pc — as banks are, in the high interest rate environment, asking returns in the range of 15-20pc on loans. The high interest rates have damaged the investment environment in the country particularly the industrial sector. The four-month data on the large scale manufacturing (LSM) sector have recorded sharp declines during the last three quarters. The LSM during October fell by 7.97pc while during the first four months of current fiscal year declined by 6.48pc.

PSX Appoints New Chief

Pakistan Stock Exchange has appointed Farrukh Hussain Khan as its Chief Executive Officer, an internal memo released by the company secretary said. The appointment had been made on the recommendation of the bourse's board of directors and approved by the Securities and Exchange Commission of Pakistan. Mr. Khan has been the Chief Investment Officer/Executive Director at BMA Asset Management and has been serving for over 13 years.

Fruitful Year for Wheat, Maize Varieties

The year 2019 has been a successful year for grain crops in Pakistan, as the country has released 20 new high-yielding,

disease-resistant and climate change-resilient wheat and maize varieties during the year so far. The achievement came mainly on the back of a partnership between the International Maize and Wheat Improvement Centre (CIMMYT) and the Pakistan Agricultural Research Council (PARC) with support from the US Development Agency USAID. Being the apex federal institution, PARC approved 10 new varieties of wheat for commercial cultivation, while the provincial seed councils of Punjab and Balochistan approved four and six new open-pollinated varieties (OPVs) of maize. These OPVs have been developed mainly for small-scale farmers to reduce the cost of seed without compromising the average yield. For the first time, the seed council of Balochistan approved any maize variety in the province. In Pakistan, about 65pc population depends on agriculture, and the sector makes up 24pc of GDP. Among major crops, wheat, rice and maize are the three most important cereal crops and contribute 63pc share in value-added agriculture. Developing genetically improved and stress-tolerant crop varieties ensures sustainability and food and nutritional security.

IMF Releases 2nd Tranche of \$454mn

The government recently received second tranche of \$454 mn from the International Monetary Fund (IMF). The transfer will be added to the State Bank's foreign exchange reserves. However, during the week ending Dec 20, the SBP's reserves increased by \$14 mn to \$10.907 bn. On the other hand, reserves held by the commercial banks decreased by \$74.7 mn bringing the country's total reserves down to \$17.595 bn.

Measures Sought to Promote Industrialization

Textile exporters recently urged the government to take measures for kick-starting industrialization as exports growth remained tepid during the July-November period of this fiscal year. Appreciating the 33pc drop in trade deficit to \$9.496 bn from \$14.47 bn during the first five months 2019-20, Pakistan Textile Exporters Association (PTEA) Chairman Sohail Pasha noted that the decline was mainly contributed by sharp reduction in imports.



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

Page No. 04

Volume 14, Issue No. 52 | Date: December 27, 2019

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

INTERNATIONAL VISTA

China to Import More EU Wheat

The EU will remain a solid source of wheat for China even though the phase one trade deal between China and the US is highly anticipated to be signed in the near future. Wheat imports from the EU, led by major wheat producer France, have surged nearly 450pc from July 1, the start of the 2019/20 marketing season, to December 15, reaching 727,000 tons, according to official EU data. France has already loaded more than 600,000 tons of wheat for China this season citing port data. The import figure from the EU is estimated to reach 1 mn tons, the report said, citing grain market sources. China has been actively exploring import sources for its agricultural goods since 2018 due to the ongoing trade war with the US. The US once held as much as 60pc of the market for China's wheat imports in the 2013/14 season. In 2018/19, exports of US wheat dived due to the trade war. The country's share of the market fluctuates heavily year-on-year as it competes with Australia and Canada, according to a report by the US Department of Agriculture (USDA) released earlier this month.

Yen Becomes ACU Currency

The Asian Clearing Union (ACU) has included Japanese Yen as the 3rd currency for the settlement of transactions. It has been decided to include Japanese Yen as the third ACU currency along with US Dollar and Euro from Jan 1, 2020 as per circular issued by the State Bank recently. The ACU Yen (ACUY) would be equivalent in value to one Yen. Accordingly, transactions under ACU mechanism, in addition to ACU Dollar and Euro, may also be denominated and settled in Yen from Jan 1, 2020.

IMF Calls for Urgent Action by India Amid Economic Slowdown

India must take steps quickly to reverse the slowdown of an economy that has been one of the engines of global growth, the International Monetary Fund said recently. Declining consumption and investment, and falling tax revenue, have combined with other factors to put the

brakes on one of the fastest growing economies in the world, the IMF said in its annual review. It noted that addressing the current downturn and returning India to a high growth path requires urgent policy actions. However, the government has limited space to boost spending to support growth, especially given high debt levels and interest payments, the fund warned. IMF chief economist Gita Gopinath said that India's slowdown had surprised to the downside and the fund is set to significantly downgrade its growth estimates for the Indian economy in the World Economic Outlook which will be released next month. The IMF in October slashed its forecast for 2019 by nearly a full point to 6.1pc, while cutting the outlook for 2020 to 7.0pc.

Germany, EU Hit Out at US Over Sanctions on Russian Gas Pipeline

Germany recently accused the United States of interfering in its internal affairs, in an increasingly angry spat over Washington's decision to impose sanctions on companies involved with a major project to supply western Europe with Russian gas. Moscow and the European Union also issued statements criticizing the sanctions, a day after President Trump signed off on asset freezes and visa restrictions on those involved in the Nord Stream 2 project. US lawmakers are seeking to stymie what they regard as an increasing reliance on Russian energy in Western Europe by targeting the project, which aims to double the amount of Russian natural gas reaching Germany via a pipeline under the Baltic Sea. The sanctions target contractors working to lay pipes for Nord Stream 2 — a 10-bn-Euro (\$11-bn) project expected to be completed in early 2020 and another Russian gas project, TurkStream.

Saudi Arabia, Kuwait Solve Dispute Over Shared Oil Fields

Saudi Arabia and Kuwait have ended a nearly five-year-long dispute over shared oil fields and have agreed to resume oil production from the divided Neutral Zone, but stressed this would not change their OPEC commitments to crude oil production cuts. The allied Gulf Arab nations signed the agreement in Kuwait City recently. Local media reported that about 300,000 barrels per day were being pumped from the area before the dispute halted production



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

Page No. 05

Volume 14, Issue No. 52 | Date: December 27, 2019

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

in early 2015. The divided zone, located between the two neighboring countries' land borders, can produce up to half-a-million barrels per day.

Retail Stores Closings in USA

It has been reported that USA, despite a healthy consumer economy, witnessed more than 9,000 retail store closings this year alone.

BoE Holds Interest Rates As BREXIT Looms

The Bank of England recently froze interest rates at 0.75pc before BREXIT next month, but left the door open to a reduction in the event of fresh turmoil. The Monetary Policy Committee (MPC) voted 7-2 to hold borrowing costs, according to minutes of the two-day December gathering, with policymakers Jonathan Haskel and Michael Saunders repeating their November call for a 0.5pc point cut. The recent decision was the first since British Prime Minister Boris Johnson's election triumph one week ago, and comes ahead of Britain's departure from the European Union on January 31, when BoE Governor Mark Carney is also due to step down. The BoE's chief task is to keep British 12-month consumer price inflation close to a 2pc-target.

MANAGEMENT OUTLOOK

TIPS

Recruit More Women Into Your Talent Pool

Gender diversity is a top priority for many managers. Once they are in the pipeline, women are more likely to get hired, but the challenge is often getting them there. There are a few immediate changes you can make to your recruitment model that will help. Start by making job postings more inclusive, using more straightforward job titles and descriptions. Remove language like "rock star" and "ninja" that tends to alienate female applicants, and focus on the expectations of the role. Also, publicize stories of women who are

succeeding across all levels of your organization. When women see themselves represented in your firm's recruiting materials, they are more likely to apply. Consider posting salary ranges for positions. Salary transparency is a signal that an employer is committed to fair pay. Research from LinkedIn also found that jobs that promoted flexible schedules, working from home and additional medical benefits were the most popular among women. So think carefully about the benefits you offer and how to highlight them in your postings. (This tip is adapted from 'How to Recruit More Women to Your Company,' by Sarah O'Brien-HBR.)

SNIPS

Africa's Free Trade Pact

The African Continental Free Trade Area unites countries across the continent, creating a single trading market with a total gross domestic product of over \$3.4 tr.

Resist Tendency to Micromanage

Micromanaging is a hard habit to break. How can you combat these tendencies? First, set regular check-ins to discuss the status of projects. You may think you are being helpful by frequently checking in on a project, but admit it: You are hovering. Remind yourself that you hired certain people because of their expertise, so give them the autonomy to use it. Your general knowledge of the required tasks will help you put the right people in the right places. After that, communicate what you need, provide them with the support and resources to accomplish their tasks and then trust them to carry it out. Finally, delegate more than you may be comfortable with. Managers who have a talent for delegation and who put it to use can breed greater team success than those who immerse themselves in the mundane details. (This tip is adapted from '3 Ways to Kick Your Micromanaging Habit for Good,' by Serenity Gibbons-HBR.)

Editor: Rafi Ahmed | Deputy Editor: Shahla Naqvi | Designed by: M. Jahangir Ishaq | Email: Publications@ibp.org.pk

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

General Disclaimer: Data used in the Economic Letter is based on government sources besides recognised representative private sector trade bodies as reported in the print media. They are cross-checked before release. Yet an error or two may creep in, regrettable as they may be as part of human nature. Reporting is unopinionated. The Institute of Bankers Pakistan stands totally absolved of any error contained in the Economic Letter, either in reporting or composing.