



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 12, Issue No. 52 | Date: December 29, 2017

PAKISTAN COMPENDIUM

BANKING SCENARIO

Deposits Folder

According to the weekly statement of position of all scheduled banks for the week ended December 08, deposits and other accounts of all scheduled banks stood at Rs. 11,812.646 bn after a 1.31 pc decrease over the preceding week's figure of Rs. 11,969.466 bn. Compared with last year's corresponding figure of Rs. 10,536.201 bn, the current week's figure was higher by 12.11 pc.

Deposits and other accounts of all commercial banks stood at Rs11,721.323 bn against preceding week's deposits of Rs11,877.726 bn, showing a decline of 1.32 pc. Deposits and other accounts of specialized banks stood at Rs. 91.324 bn, lower by 0.45 pc against previous week's figure of Rs. 91.741 bn.

Value-Added Textile Exports Rise 12 pc

Exports of value-added textile products posted a growth of over 12 pc year-on-year to \$3.46 bn in the first five months of 2017-18, the Pakistan Bureau of Statistics said recently. This propelled overall growth in exports during the period under review mainly because of a cash subsidy offered to exporters under the prime minister's incentives package and the payment of sales tax refunds. Total exports of the textile sector reached \$5.51 bn in July-November against \$5.11 bn a year ago, reflecting an increase of 7.66 pc. The share of textile and clothing sector in overall export proceeds stood at 61 pc during the period under review.

The main driver of growth was the value-added textile products. Exports of readymade garments edged up 14.69 pc in the first five months in value and 11.45 pc in quantity. Similarly, exports of knitwear increased 12.07 pc in value and 12.82 pc in quantity during the period under review. In the category of primary commodities, exports of cotton yarn witnessed a year-on-year increase of 0.64 pc in value. Exports of yarn other than cotton increased 15.8 pc in dollar terms. Exports of made-up articles, excluding towels, increased 7.8 pc while those of art, silk and synthetic textiles rose 53.3 pc during the period under review.

Pakistan's Power Generation Up 2.3 pc

Power generation through furnace oil and hydel reduced 51 pc and 22 pc, respectively, in November year on year although overall generation increased by 2.3 pc in the month, according to data released by the National Electric Power Regularity Authority (NEPRA). The energy mix witnessed a major change as

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 months)

	Bid%	offer%
BEGINNING	5.96	6.21
ENDING	5.96	6.21
CHANGE	0	0

Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
BEGINNING	PKR 146.00	PKR 129.50	PKR 110.30
ENDING	PKR 146.50	PKR 130.25	PKR 110.60
CHANGE	+0.5	+0.75	+0.3

Pakistan Stock Exchange

	100 Index
BEGINNING	39,428
ENDING	40,471
CHANGE	+1043

Gold Rate

	(10 gm)
BEGINNING	PKR 46,757
ENDING	PKR 47,571
CHANGE	+814



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Re-gasified Liquefied National Gas (RLNG) and Coal-fired power plants produced greater energy in November. Power generation increased by 2.3 pc year on year 6,994 GWh (Gigawatt hours) during November 2017 compared with 6,840 GWh during the same month last year. The change in the energy mix comes as Pakistan decides to opt for low cost fuels in producing energy.

Pakistan: Major Consumer Market

Pakistan's strategic location, its big population and workforce, economic outlook, investment policy and special economic zones under the China-Pakistan Economic Corridor (CPEC) have made the country an ideal destination for foreign direct investment (FDI), a leading businessman remarked. It was highlighted at an international investment forum organised by Expandeers – a global network of senior business development experts – in Munich, Germany, that Pakistan's economy had expanded to \$304.4 bn and its per capita income stood around \$1,470. Pakistan had been blessed with vast fertile land due to which agriculture had played a vital role in the national economy. Pakistan is the 4th largest producer of cotton, 5th largest producer of sugarcane, 8th largest producer of wheat and 10th largest producer of rice. Textile and clothing products account for over 50 pc of national exports.

An expert is one who knows more and more about less and less until he knows absolutely everything about nothing -- Nicholas Murray Butler

SME Policy: Rs. 6 bn for Energy Projects

Under the recently launched policy for the promotion of financing for small and medium enterprises (SMEs), Rs. 6 bn will be available at a subsidized rate of 6 pc for renewable energy projects of up to 50 MW in hydro, solar, wind and biogas categories. According to the document issued by the State Bank of Pakistan (SBP) recently, the subsidized loan will be available for up to 12 years. The scheme also incentivizes the establishment of small-scale renewable energy solutions of less than 1MW to promote

solar usage among consumers. The policy paper said the financing will be available for the new imported and local plant and machinery and the purchase of new generators of up to 500 kilo volt ampere (kVA) with a subsidized rate of 6 pc for 10 years.

Using Yuan in Trade with China

It has been confirmed that Pakistan is considering using the Chinese currency for bilateral trade. The two countries aim to promote monetary cooperation between the central banks, implement existing currency-swap arrangements, research to expand the amount of currency and explore to enrich the use and scope of bilateral currency swap and assign the foreign currency to domestic banks through credit-based bids to support the financing for projects along the CPEC. This means Pakistani and Chinese banks will, in the course of time, be able to open import letters of credit in rupees and yuan (also known as renminbi, or RMB). Moreover, Pakistan will be able to pay for imports from China in yuan rather than foreign currencies. There is a growing trend towards promoting the use of local currencies to settle transactions between two or more countries. As recently as on December 11 2017, the central banks of Indonesia, Malaysia and Thailand introduced a framework to boost direct settlement of transactions in their local currencies.

Large-Scale Manufacturing Rises

The LSM is back in action. LSM growth stood at a whopping 8.7 pc in October year-on-year. That is the highest growth October has witnessed in many years. The drivers of incremental growth this month seem to be vegetable ghee, soft drinks, electric motors, and TV sets, while growth in other sectors and items remains largely in line with the trends so far. The theme of the LSM growth, ergo, is much the same.

ECC Allows Wheat, Sugar Exports

The government of Pakistan has decided to export 2 mn tonnes of wheat and 300,000 tonnes of sugar by the public sector entities. The decisions were taken at a meeting of the Economic Coordination Committee (ECC) of the Cabinet which also granted tax and duty exemptions for Sukkur-Multan Motorway, raising of Rs. 70 bn loan for making hydropower payments to provinces and tax breaks to companies and universities.



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Chinese Automaker to Launch 800cc Car in 2018

A leading Chinese bike maker is gearing up to launch an 800cc car next year, a company official confirmed recently. Its launch will be followed by the end of the 30-year journey of iconic 800cc Suzuki Mehran in 2019. United Auto Industries is venturing into car and pickup manufacturing, according to United Motors spokesman. He said the company will use Chinese technology and market its vehicles under the brand name of United. "The local assembly of these vehicles will begin in the first half of 2018," he said. Pak Suzuki plans to discontinue Mehran and introduce the next-generation 660cc Alto in March 2019. Alto will have a price tag of Rs. 850,000-900,000 for the basic variant. Mehran, Ravi and Bolan, which belong to the 800 cc category, constitute the largest auto segment with combined sales of approximately 8,000 vehicles per month.

KALEIDOSCOPE

China Opened the World's Longest Sea Bridge to General Traffic

The bridge spans 42.4 km (26.3 miles) to connect the eastern coastal city of Qingdao to the suburb of Huangdao, in Jiaozhou Bay. State media say the bridge passed construction tests and opened to traffic along with an undersea tunnel. The bridge would easily cross the English Channel, which is 32 km wide at its narrowest point. It is 4 km longer than the previous record-holder, the Lake Pontchartrain Causeway in the US state of Louisiana. It took four years to build and state media say the project cost over 10 bn yuan (\$1.55 bn). The bridge is supported on more than 5,200 pillars.

INTERNATIONAL ARENA

Thailand-China Railway Project Starts

Construction of a long-awaited Thai-Chinese railway line that will link Thailand, Laos and China officially began recently with a ground-breaking ceremony in the north-eastern Thai province of Nakhon Ratchasima.

The first phase of the project, a 250-km (155 mile) high speed rail line linking Bangkok to Nakhon Ratchasima, is expected to be operational in 2021. The full line is expected to stretch 873 km (542 miles), linking Thailand and Laos at the northeastern Thai city of Nong Khai. It is part of Beijing's ambitious Belt and Road infrastructure drive, which aims to build a modern-day 'Silk Road' connecting China to economies in Southeast and Central Asia by land and the Middle East and Europe by sea.

South American Trade Bloc Gains Strength

Leaders of the South American trade bloc, Mercosur, met recently in greater agreement, but with their biggest goal of a trade deal with the European Union yet to be achieved. A shift in governments in Argentina and Brazil has given the group, that also includes Paraguay and Uruguay, more focus on trade. Mercosur will start trade negotiations with Canada early next year, and then with Singapore and South Korea. Negotiations with the European Union gained speed and were almost concluded this month after nearly two decades of wrangling, but stumbled on an EU delay in presenting improved offers for imports of Mercosur beef and ethanol. (*MERCADO COMÚN DEL SUR* is a Customs union of four Southern-cone countries, Argentina, Brazil, Paraguay, and Uruguay, established under the 1991 Treaty of Asunción).

Bolivia Seeks Investors to Raise Lithium Output

Bolivia hopes surging global lithium demand can lure foreign investors to the country where nearly a decade of state-led development has left output far short of goals for the metal, coveted by makers of batteries for devices from laptops to electric cars. The South American nation boasts nearly a quarter of the world's known resources of the world's lightest metal. Still, production lags far behind



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neighboring Chile and Argentina. Bolivia hopes to sign a deal with at least one foreign partner to invest up to \$750 million in factories to meet rising demand from China and other countries for lithium-ion batteries. The country is eager to cash in on tightening supplies of lithium. Experts say spot prices have more than doubled to around \$25,000 per tonne from below \$10,000 in 2015.

World's Solar-Power Train Makes First Trip

The entirely solar-powered train took its initial short ride in Australia. The solar train was developed by 'Byron Bay Railroad Company' that brought a 70-year-old 'red rattler' passenger vehicle back to life to show that solar power can work for such kind of major transportation. Being the idea of businessman Brian Flannery, the whole project cost approximately \$4 mn.

Japan Jobless Rate Lowest in 24 years

Japan's unemployment rate in November dipped to its lowest level since November 1993, official data showed recently, offering another sign that the world's third-largest economy is on track to recovery even if the pace is slow.

Figures released by the government showed unemployment stood at 2.7 pc last month while the jobs-to-applicants ratio improved slightly, up 0.01 pc from the previous month to 1.56 in November — the highest level in almost 44 years.

The latest data come as Japan has notched up seven straight quarters of economic growth — the longest positive run for 16 years — with the upcoming 2020 Olympic Games giving the economy a shot in the arm.

"Japan's economy is expected to keep expanding through the first half of next year," according to Masaki Kuwahara, senior economist at Nomura Securities.

Confidence among Japan's biggest manufacturers is also at an 11-year high, a key central bank survey showed earlier this month, as the world's number-three economy picks up pace.

British Purchasing Power Set to Stagnate

Britons' purchasing power, which took a hit this year against the backdrop of Brexit, looks set to stagnate in 2018, according to a new study released recently.

Following what was a "tough year for living standards" in 2017... the prospects for a "meaningful pay recovery" are "still out of sight", said Torsten Bell, head of the Resolution Foundation, a London-based think tank. Since Britain voted to leave the European Union in June 2016, a drop in sterling making imported goods more expensive has pushed inflation up to more than 3.0 pc. And while unemployment is currently at its lowest level since 1975, low productivity has prevented wages from keeping pace with inflation. The think tank noted that stagnant pay packets next year actually represented an improvement over 2017, when real wages fell. It suggested that the effect of the falling pound could ease off in the coming months, causing inflation to slow. But the study predicted that the squeeze on purchasing power was likely to worsen before it improved. For the moment, the high rate of inflation in Britain still appears to be hitting post-Christmas retail sales.

SHINGLES

- Facebook is worth half a trillion dollars and has two billion monthly users.
- High Net Worth Individuals (HNWIs) are defined as those people with more than \$1 mn of investable assets, as reported by Barclays. The number of HNWIs rose from 11 mn in 2011 to 16.5 mn in 2016, and their collective wealth grew to \$63 trn, according to Capgemini consultancy.
- The Big 5 Are All Tech Firms -Based on the value of their stock in early July, the world's five most valuable companies are Apple, Alphabet, Microsoft, Amazon.com and Facebook.
- A widening productivity gap - Recent research suggests that when companies around the world are ranked by productivity, the gap between those in the top 10% and those in the bottom 10% rose by about 14% between 2001 and 2012.



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MANAGEMENT & INFOTECH CORNER

Artificial Intelligence Finds Solar System with 8 Planets like Earth

A solar system with as many planets as our own has been discovered with the help of NASA's Kepler space telescope and artificial intelligence, the US space agency said recently. "Our solar system now is tied for most number of planets around a single star," NASA said in a statement. However, none of the planets are expected to be hospitable to life. The eight-planet system -- the largest known outside of ours -- orbits a star called Kepler 90 some 2,545 light-years away. "The Kepler-90 star system is like a mini version of our solar system," said Andrew Vanderburg, an astronomer at the University of Texas at Austin.

Blockchain is Getting Bigger at Big Blue*

Demand for the technology, best known for supporting bitcoin, is growing so much that it will be one of the largest users of capacity next year at about 60 data centers that International Business Machines Corp. rents out to other companies around the globe. IBM was one of the first big companies to see blockchain's promise, contributing code to an open-source effort and encouraging startups to try the technology on its cloud for free. That a 106-year-old company like IBM is going all in on blockchain shows just how far the digital ledger has come since its early days underpinning bitcoin drug deals on the dark web. The market for blockchain-related products and services will reach \$7.7 bn in 2022, up from \$242 mn last year, according to researcher Markets & Markets.

That's creating new opportunities for some of the leading companies like IBM and Microsoft Corp. that are making the transition to cloud services. And products that had gone out of vogue, such as databases sold by Oracle Corp., are rising again. *Big blue is the nickname of IBM. (The Harvard Business

Review describes blockchain as "an open, distributed ledger that can record transactions between two parties efficiently and in a verifiable and permanent way. For use as a distributed ledger, it is typically managed by a peer-to-peer network collectively adhering to a protocol for validating new blocks. Once recorded, the data in any given block cannot be altered retroactively without the alteration of all subsequent blocks, which requires collusion of the network majority.)

Self-Employed in the USA

According to the US General Accounting Office, about 40 pc of American workers are "contingent workers," or non-salaried employees who work part time, as independent contractors, freelancers or are self-employed.

Quality is not an act, it is a habit - Aristotle

Start a Difficult Conversation by Focusing on the Common

When you're broaching a tricky topic with a colleague, your first few sentences can make or break the discussion. It's normal to be defensive, and even to put blame on the other person, but implying that your counterpart is wrong will make the tough conversation even worse. Set yourself up for success by establishing common ground between you and the other person. State what you already agree on — where your goals overlap. You might say "We both want to make sure our patients get the best care possible" or "We agree that the new email system should integrate with our existing IT systems." If you aren't able to pinpoint common ground, or you're not sure what your counterpart's goal is, the easiest way to move forward is to ask questions. Explain what's important to you and then ask, "Is there any overlap with what you care about? Or do you have another goal?" Questions like these set a collaborative tone. (Adapted from the HBR *Guide to Dealing with Conflict*, by Amy Gallo.)

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