ECONOMIC LETTER

a weekly publication of The Institute of Bankers Pakistan

THE INSTITUTE OF BANKERS PAKISTAN

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

VOLUME 16 | ISSUE 12 | MARCH 19, 2021

PAKISTAN TIDINGS

COVID-19: Impact of SBP's Measures as of March 04 - 15, 2021

(Rs. in billion)

Loans Deferred	657.0	Loans Approved for Hospitals	10.0
Loans Restructured	244.0	Loans Approved for Investment	543.0
Loans Approved for Wages*	238.0	ATMs' Availability	97 percent

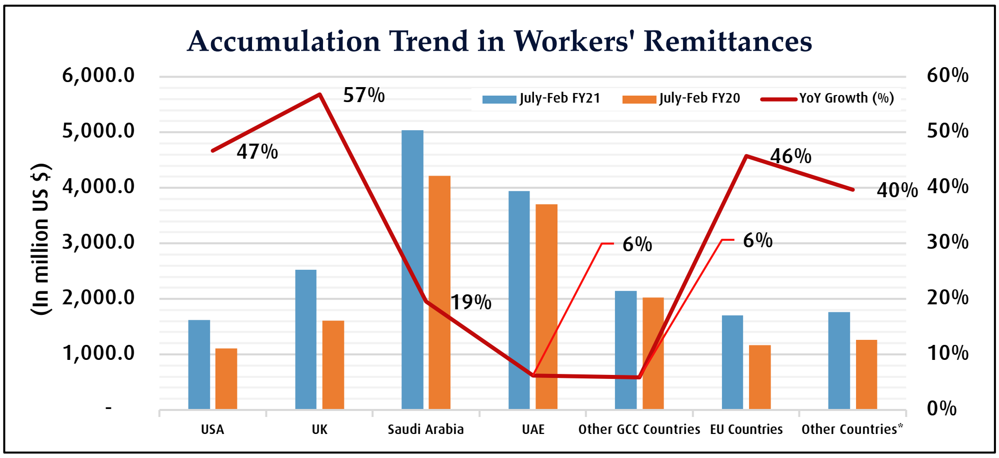
Since the scheme is no longer available, the data has not been updated after November 13, 2020.

Higher Growth in Workers' Remittances Emanated Mostly from Developed Countries

For the 9th consecutive month, workers' remittances remained above $2 billion in February 2021. Workers' remittances amounted to $2.3 billion in February 2021, around the same level as the previous month and 24.2 percent higher than in February 2020. During Jul-Feb FY21, workers' remittances reached $18.7 billion, 24.1 percent higher than the corresponding period last year.

A large part of workers' remittance inflow during Jul-Feb FY21 was sourced from Saudi Arabia ($5.0 billion), United Arab Emirates ($3.9 billion), United Kingdom ($2.5 billion) and United States ($1.6 billion). In terms of year-on-year growth, the developed countries stemmed the lead and contributed around 68 percent of $3.6 billion additional remittances received during first eight months of FY21.

Policy measures undertaken by the Government and SBP to encourage inflows through formal channels, limited cross border travel due to COVID-19, medical expenses and altruistic transfers to Pakistan amidst the pandemic, and orderly exchange market conditions contributed to this sustained rise in workers' remittances.



Other countries include Malaysia, Norway, Switzerland, Australia, Canada and Japan.

MARKETS AT A GLANCE

Rates taken till Friday, March 19, 2021

MONETARY POLICY RATE

7pc | Effective from June 25, 2020

KIBOR (6 MONTHS)

	Bid%	Offer%
STARTING	7.64	7.89
ENDING	7.59	7.84
CHANGE	-0.05	-0.05

FOREIGN EXCHANGE RATES

	GBP(£)	EURO(€)	USD($)
STARTING	PKR 219.08	PKR 187.56	PKR 157.14
ENDING	PKR 217.48	PKR 185.89	PKR 155.97
CHANGE	-1.6	-1.67	-1.17

PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	43,788
ENDING	44,901
CHANGE	+1113

GOLD RATE

	(10 GM, 24K)
STARTING	PKR 85,500
ENDING	PKR 91,220
CHANGE	+5720

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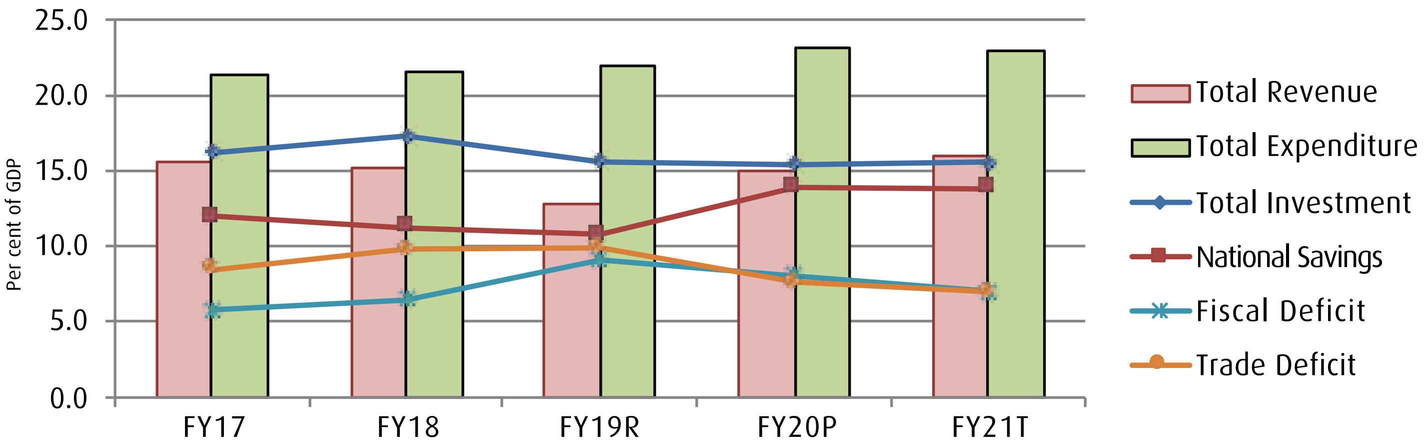
Pakistan's Major Economic Indicators

Real Sector (Percent Growth)	FY17	FY18	FY19[R]	FY20[P]	FY21[T]
GDP (Real)	5.5	5.5	1.9	-0.4	2.1
Agriculture Sector	2.2	4.0	0.6	2.7	2.8
Industrial Sector	4.6	4.6	-2.3	-2.6	0.1
Services Sector	6.5	6.3	3.8	-0.6	2.6
GNP (mp) Rs. Per Capita	170,672	181,453	198,028	214,539	229,519
GNP (mp) US $ Per Capita	1,630.1	1,651.9	1,455.1	1,355.0	1,408.1

As Percent of GDP (mp)



CPI INFLATION (YoY%)	FY17	FY18	FY19	FY20	JAN 2021	FEB 2021
General	4.8	4.7	6.8	10.7	5.7	8.7
Food (Urban)	4.3	3.8	4.6	13.6	7.3	10.3
Non-Food (Urban)	5.1	5.8	8.5	8.3	3.7	7.6

Currency in Circulation as on (Stock data) — **Rs. in billion**

June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	February 26, 2021	March 5, 2021
3,911.3	4,387.8	4,950.0	6,142.0	6,468.3	6,594.3

T = Taget | P = Provisional | R = Revised

Sources: i) Annual Plan 2020-21, Planning Commission | ii) Pakistan Economic Survey 2019-20, Finance Division
iii) Data published on SBP website

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Banking Briefs – All Scheduled Banks

	(Rs. in billion)*			% age change over	
	5-Mar-21	26-Feb-21	6-Mar-20	Previous Week	Corresponding Week
Investments	11,644.7	11,579.4	9,001.5	0.56	29.36
Gross Advances	8,495.8	8,527.7	8,190.2	-0.37	3.73
Borrowings	3,301.4	3,217.4	2,821.1	2.61	17.03
Deposits and other accounts	16,995.8	17,189.7	14,682.6	-1.13	15.75

Strong Growth Witnessed in Digital Financial Transactions in the Country in Q2 FY21

The State Bank of Pakistan released its Quarterly Payment System Review (QPSR) for the second quarter, October – December 2020, of the fiscal year 2020-21 on March 18, 2021, which shows strong growth in digital financial transactions in the country. During Q2FY21, 296.7 million e-Banking transactions valuing Rs. 21.4 trillion were carried out, registering a growth of 24 percent by volume and 22 percent by value, over the same quarter last year. Most of the uptake in e-banking transactions were seen in internet and mobile banking. The volume of mobile banking transactions reached 44 million, (up 147 percent) valuing Rs. 1.12 trillion (up 192 percent) compared to 17.8 million transactions valuing 382.5 billion in the same quarter, last year.

The number of registered mobile phone banking users reached 9.4 million accounting an increase of 5 percent. Similarly, 22 million internet banking transactions valuing Rs. 1.3 trillion were recorded during this period compared to Rs. 1.1 trillion in the previous quarter.

In response to SBP's measures to incentivize the installation of Point of Sale (POS) machines to facilitate digital payments through debit or credit cards, the number of POS machines have shown a notable growth of 18 percent during Q2FY21, reaching 62,480 installations throughout the country. On these POS machines, 23 million transactions amounting to Rs. 115 billion were processed during Q2FY21, which shows the positive impact of the market conducive policies adapted by SBP, particularly targeted towards increasing the payment acceptance infrastructure in Pakistan.

Card based transactions on e-commerce portals also increased substantially, with e-commerce merchants processing 5.6 million transactions through payment cards amounting to Rs. 15 billion compared to 3.9 million valuing 11.9 billion in the first quarter of the current fiscal year, which marks a shift in the behavior of the Pakistani population and also complements Government of Pakistan's efforts to develop a more market friendly landscape toward acceptance of payments by e-commerce merchants. Total number of payment cards issued in the country stood at 44 million out of which 27.6 million are debit cards and 1.7 million are credit cards. Further, 7.6 million social welfare cards have been issued by banks on behalf of BISP, EOBI and other government organizations.

In the last few years, Digital payment transactions in Pakistan have shown significant growth, reflecting the favorable impact of the SBP's policies in shifting customer preferences. Expansion in digital payment infrastructure as well as the emergence of new payment aggregators have played a role in this growth. In line with its declared objectives to digitize payment and financial services, SBP will continue promoting digitization in the country and expects the industry to support these efforts, which will increase convenience and financial inclusion for all Pakistanis.

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SBP Enhances Digitization Initiatives in Banks/MFBs

In order to promote digitization in the banking sector and encourage use of digital channels, SBP has instructed (https://www.sbp.org.pk/psd/2021/C1.htm) all banks to provide minimum set of services on their Internet Banking (IB) and Mobile Banking (MB) channels. These services will include bill payments, funds transfer/IBFT, beneficiary management, limit management, credit and debit card management, stop cheque payment etc. To encourage the use of internet and mobile banking services by their customers, banks will not levy any activation, subscription or annual charges on their customers for using such services. The digitization of the entire payment process is hindered if the customers can make payments to only those billers that are registered with their own bank. Hence, in order to facilitate the customers, the banks have been advised to make necessary arrangements to ensure that their customers can make online payments to maximum number of billers. To promote the use of payment cards, the banks will issue debit card to all new bank account holders and customers who have not previously opted for a debit card, unless the customer opts not to receive any payment card. However, this requirement will not be applicable on customers that are not literate, Photo Account Holders and visually impaired persons.

The banks have been authenticating their customers at the bank counters using signatures and paper based instruments. The existing EMV card infrastructure provides secure authentication; hence, there is potential to facilitate customers by using this infrastructure to replace the manual authentication process. In this regard, the banks/MFBs are now permitted to authenticate their customers at branch counters using chip-and-pin cards and 2 Factor Authentication (2FA) and provide them banking services. Considering the significance of digitization, the banks have also been advised to create a role of Chief Digital Officer (CDO) who would be responsible for steering the digitization efforts. Further, accelerated digitization will also be part of KPIs of every CEO, which will be monitored by their board for its achievement on at least half-yearly basis.

Beware of Investing in Fraudulent Schemes: SECP

The Securities and Exchange Commission (SECP), to promote protection of investors and the public interest, regularly issues warnings and alerts, guiding the general public to refrain from investing in fraudulent investment schemes that promise hefty profits and unrealistic returns. As clearly covered in Section 84 of the Companies Act, 2017, inviting and accepting deposits from the public is a prohibited activity, and can only be offered by specialized companies duly authorized by the SECP or SBP.

In view of various complaints and queries received by the SECP concerning an entity "All Pakistan Projects", it has emerged that the entity is offering lucrative investment packages through its website (https://allpakistanprojects.com/). The general public is being informed that 'All Pakistan Projects' is not registered with the SECP. However, it has been noted that few individuals, whose names are appearing on the website of the entity, are directors/members in the following registered companies:

◇ APP Projects and Real Estate (Private) Limited,

◇ AITS Traders (SMC-Private) Limited,

◇ APP Restaurants & Cafe (Private) Limited,

◇ APP Riders (Private) Limited;

◇ APP Shopping Mall (Private) Limited.

As previously clarified, mere registration of a company with the SECP does not necessary mean that these companies can invite or accept deposits from the public. In view of above, SECP advised the general public in their own interest, to refrain from investing their hard-earned savings in unauthorized schemes and verify the legitimacy of any investment scheme before investing. List of other entities/companies involved in similar unauthorized schemes is available on SECP's website at the following link:

https://www.secp.gov.pk/document/list-ofcompanies-indulged-in-unauthorizedactivities/?wpdmdl=41058&re-fresh=5ff2b4f5a82801609741557

Complaints or evidences against companies involved in unauthorized activities and illegal deposit taking can be sent at email ID scams@secp.gov.pk

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INTERNATIONAL SCENARIO

Why GCC Banks' Post-COVID Recovery Will Be Slow

The Gulf Cooperation Council (GCC) banking sectors' performance is closely linked to the economic recovery of these countries, according to analysts at rating agency Standard & Poor's (S&P).

S&P expects economic growth in the GCC countries to recover rather slowly from last year's sharp recession triggered by the COVID-19 pandemic and low oil prices. However, the rating agency sees long-lasting adverse effects from the 2020 shock on GCC economies and banking sectors. "Saudi and Qatar's banking sectors will be less impacted than those in the UAE, Oman and Bahrain, while in Kuwait the story will depend on the evolution of the fiscal impasse," said Mohamed Damak, a senior director in financial services at S&P.

Real GDP across the GCC contracted sharply in 2020 because of low oil prices and a significant COVID-19-related slump in the hospitality, commerce and real estate sectors. "We expect oil prices will average $60 for 2021 and 2022 and continued progress on vaccine rollouts but see downside risks from further virus waves," said Benjamin Young, a director at S&P.

Dubai Expo 2020 and the football World Cup in Doha in 2022, as well as hydrocarbon sector recovery, will boost economic growth but it will remain below historical levels. S&P expects, most GCC countries will not return to 2019 nominal GDP before 2023, with an even longer road for Saudi Arabia.

The rating agency expects a full recovery in the global aviation and tourism industries will take time and continued weak recovery of global air travel in 2021-2022. In the real estate sector too, analysts expect negative investment sentiment to persist and demand remain subdued.

S&P expects banks' asset-quality indicators will continue to deteriorate and cost of risk to remain high as they start recognizing the true impact of impairments in 2020 and forbearance measures are lifted in second-half 2021.

Given continued low interest rates, banks' profitability will remain low in 2021 and beyond, with some potentially showing losses in 2021. GCC banks suffered a triple shock to profitability in 2020 from lower lending growth, lower-for-longer interest rates and higher cost of risk. In Saudi, mortgage lending continues to expand due to the authorities' objective of increasing home ownership, while in Qatar government projects are boosting growth. Corporate demand for loans will likely improve only slightly, with some deferred 2020 capital expenditure and debt refinancing potentially occurring this year.

S&P analysts said the measures implemented by most central banks in the region are supportive of liquidity but do not remove or reduce credit risk from the balance sheet of banks (yet).

GCC banks' capitalization will continue to support their creditworthiness in 2021. Banks stepped up Additional Tier 1 issuances (both conventional and Islamic) in 2020 to benefit from supportive market conditions and this should continue in 2021.

> "It was said to the Messenger of Allah (ﷺ): 'Which of the people is best?' He said: 'Everyone who is pure of heart and sincere in speech.' They said: 'Sincere in speech, we know what this is, but what is pure of heart?' He said: 'It is (the heart) that is pious and pure, with no sin, injustice, rancor or envy in it.' "
>
> THE PROPHET MUHAMMAD ﷺ

Asia-Pacific Region Continues to Lead Global Growth: Moody's

In its latest analytic report released on March 16, 2021, the US-based Moody's Investors Service highlighted that the Asia-Pacific (APAC) region continues to drive global growth after the coronavirus pandemic-induced downturn.

"All Asia-Pacific economies – except the Philippines, Thailand and Malaysia – are expected to recover past

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their pre-pandemic levels by end-2021," said the report.

According to Moody's, all Asia-Pacific economies are anticipated to record growth in 2021. As of March 11, Moody's Analytics forecasts India to record the strongest growth of 12 percent, followed by China (8.3 percent) and Vietnam (7.5 percent). New Zealand, the Philippines, Taiwan, Singapore, Indonesia and Hong Kong are forecasted to grow by about 5 percent to 6 percent. The remainder – Malaysia, Australia, South Korea, Japan and Thailand – are forecast to grow by about 3 to 4 percent.

In the second half of the year, the region is expected to be supported by increased immunity and less social distancing, together with the emergence of North America and Europe from COVID-19 restrictions, which will drive global spending, said the rating agency report.

According to Moody's, a recovery in international trade, supportive fiscal policies and measures to manage COVID-19 are other factors working in the Asia-Pacific region's favor.

> **"It is an obligation that an official should not behave differently with the people (ra'iyyah) on account of distinction which he receives or material advantage that he may achieve. Instead, these favors from Allah should bring him nearer to Allah's creatures and increase his compassion towards his brethren."**
>
> **HAZRAT ALI** رضي الله عنه

Globally, aggregate merchandise trade and industrial production made a full recovery in December, the report noted. Throughout North Asia and much of South-east Asia, exports are now above pre-COVID levels. Rising prices for crude oil, palm oil and other commodities are also contributing to the rising value of exports, for commodities producers like Indonesia and Malaysia.
On the fiscal end, APAC countries like Malaysia, Singapore, Japan and Australia have continued to provide modest stimulus in 2021, via targeted deficit spending, following aggressive policies last year. These countries provided more sizeable fiscal responses in 2020, measured as a percentage of GDP, compared to large economies like Canada, France, Germany, Italy and Brazil.

The pace of vaccinations is also expected to boost the region's economy in the second half of the year. The report identified only the Philippines and Thailand to be lagging in their procurement of vaccines, though its forecast assumes they will acquire the vaccines needed, as the number of sources expands. Thailand's high exposure to travel and tourism is expected to continue hobbling its recovery for some time. Malaysia also depends heavily on tourism; and its economy ground nearly to a halt in the fourth quarter of last year, due to movement control orders, according to Moody's.

MANAGEMENT VIEWS

Make the Right Hire — Not the Perfect One

You have spread the word that you are hiring, but the applications you have received have been less than ideal. How should you evaluate an imperfect candidate? And when should you take a chance on someone? Start by pinpointing the job's basic requirements. Look at employees in similar positions and ask: Which qualifications do the top three performers have in common? The objective is to help you see more clearly which flaws are fatal and which may be constructs designed by HR. For example, you should not automatically discount someone who has changed jobs recently, or who was out of the workforce, or who does not have a certain title or degree. Next, gauge the candidate's capacity to grow. Ask them to describe the steps they take to learn something new and use reference checks to assess the predictors of potential, namely curiosity, confidence, and motivation. But do not ignore any character defects; if candidates lie, are abusive, or have lousy work habits, they are not likely to change. And remember that the cost of a bad hire is steep, so you should not succumb to pressure to hire quickly. In reality, you are highly unlikely to find a perfect

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candidate for any role, but these tips will help you have a better sense of when to take the leap on an imperfect candidate.

(This tip is adapted from *When to Take a Chance on an Imperfect Job Candidate*, by Rebecca Knight – HBR.)

Avoid These Mistakes When Responding to Employee Activism

Leaders tend to be ill-equipped to handle politically or socially outspoken employees. But with employee activism on the rise, you need to be wary of mishandling your response. As a manager, do your best to avoid these three common mistakes.

- **Dismissing activism as unnecessarily disruptive behavior.** Take seriously the possibility that you may be out of touch if a particular movement does not resonate with you and make an effort to listen and learn from your employees instead.
- **Believing you can be apolitical.** Inaction or silence is not neutral; it is a statement. It also opens you up to criticism on the very issue you may be hoping to avoid. You have a responsibility to respond, one way or another.
- **Rushing to quick fixes.** To avoid the quick-fixes trap, have your executive team discuss your organization's approach to employee activism as part of your strategic plan. Being proactive, not just reactive, can help to avoid panicked responses.

(This tip is adapted from *The Wrong Way to Respond to Employee Activism*, by Megan Reitz et al. – HBR.)

Managing an Employee Who Has Checked Out

There are many reasons an employee might mentally check out. They could be experiencing burnout or a personal issue, or they could be totally unaware that they have been slipping. Before you initiate a conversation, learn about any available support systems, including employee resource groups, assistance plans and health networks that could help your employee if they need it. Next ask yourself: What are the specific requirements of the job that this person is not meeting? Be ready to present this evidence. Then, open an honest and empathetic dialogue. Give your employee a chance to tell you what is going on before sharing your assessment of their performance. Be compassionate and make it clear you have a sincere desire to support them. Then discuss your priorities, be straightforward and specific about your concerns and come up with a plan to re-engage them in their work. You need to be patient, but to a point. Lighting a spark under a disengaged employee will not happen overnight. But if an employee is truly checked out, it ultimately might not be the right role for them.

(This tip is adapted from *What to Do When Your Employee Is Totally Checked Out*, by Rebecca Knight – HBR.)

SNIPS

Wanting to Grow

Despite significant investments in training each year, 6 in 10 employees strongly feel that do not have opportunities to learn and grow, says MIT Sloan Management Review.

When Women Lead

Organizations with gender diversity among their managers, experience substantial increases in innovation revenue when the proportion of female managers reaches more than 20 percent, indicates Gallup research.

One Bulb at a Time

Widespread use of LED lighting could save the United States $30 billion by 2027, estimates the US Department of Energy.

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IBP TRAINING CALENDAR - MARCH 2021

THE INSTITUTE OF BANKERS PAKISTAN

22 MARCH MONDAY
2PM - 6PM

Regulatory Requirement for Collateral Management
FACILITATOR: Murtaza Rizvi
COURSE FEE: PKR 7,000 (Excluding sales tax)
ONLINE TRAINING

26 MARCH FRIDAY
9AM - 1PM

Behavioral Finance
FACILITATOR: Vijay Kumar
COURSE FEE: PKR 7,000 (Excluding sales tax)
ONLINE TRAINING

27 MARCH SATURDAY
9AM - 1PM

National Payment System Strategy
FACILITATOR: Syed Muhammad Taha
COURSE FEE: PKR 7,000 (Excluding sales tax)
ONLINE TRAINING

30 MARCH TUESDAY
9AM - 1PM

Branch Banking Operations-Tools & Techniques
FACILITATOR: Faisal Anwar
COURSE FEE: PKR 7,000 (Excluding sales tax)
ONLINE TRAINING