



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan\*

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Volume 14, Issue No. 04 | Date: January 25, 2019

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

## PAKISTAN OVERVIEW

### Current Account Deficit Shrinks by 4.4pc

The crucial current account deficit (CAD) slipped slightly by 4.4pc to \$7.98 bn, driven by a fourth quarter decline of 10pc, according to data released by the State Bank of Pakistan (SBP). The CAD lies at the heart of the economy's difficulties since it is primarily responsible to draining the foreign exchange reserves that have fallen to slightly more than one month's import cover since hitting a peak of 5 months import cover in October 2016. Last year the CAD hit a record high of \$18.619 bn, implying loss of reserves at roughly \$1.5 bn per month.

### Money Laundering to be Made Non-bailable Offence

The government is set to introduce key amendments to the Anti-Money Laundering (AML) Act 2010 and the Federal Investigation Act (FIA) 1974 as part of the Finance Supplementary (Second Amendment) Bill 2019 to comply with the requirements of the Financial Action Task Force (FATF). Accordingly, the Finance Minister will brief the federal cabinet on the supplementary finance bill, explaining the reasons and targets of reform packages for various sectors of the economy including small and medium enterprises, agriculture, industry, housing, stock market and exports.

### Pakistan Doubles its Wheat Contribution to SAARC Food Bank

Pakistan has doubled the quantum of wheat from 40,000 tonnes to 80,000 tonnes as its share for the 'Regional Food Bank' maintained by the South Asian Association for Regional Cooperation (SAARC). Minister for National Food Security made the announcement at the recent 10th meeting of the SAARC Food Bank board in Islamabad. The SAARC region with 1.788 bn people has annual food grain requirement of 244 mn tonnes and the total reserve represents 0.2pc of the total requirement though the reserve had jumped by 100pc from the 1988 stock to 486,000 tonnes in 2007. At the Islamabad meeting, the board formulated recommendations for operationalizing the bank, and it was decided that the international development partners working in the region would also be engaged in this regard. The meeting deliberated on various aspects of the food bank and SAARC member states including Afghanistan, Bangladesh, Bhutan, India, the Maldives and Sri Lanka were actively engaged during the meeting.

### LSM Drop by 0.6pc in November

The large-scale manufacturing sector shrank 0.6pc during November, the Pakistan Bureau of Statistics (PBS) reported recently. Meanwhile, automobiles production was up by 10.03pc, paper and board 10.05pc, rubber products 9.98pc, textile 0.62pc, non-metallic mineral products 4.5pc, iron and steel products 26pc and electronics 30.6pc. Source-wise, production data of 11 items from Oil Companies Advisory Committee registered a growth of 0.29pc. Pharmaceutical up 9.9pc year-on-year during November

## MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

### KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	10.51	10.76
ENDING	10.50	10.75
CHANGE	-0.01	-0.01

### FOREIGN EXCHANGE RATES

	GBP(£)	EURO(€)	USD(\$)
STARTING	PKR 178.10	PKR 157.60	PKR 138.60
ENDING	PKR 181.20	PKR 158.00	PKR 138.90
CHANGE	+3.1	+0.4	+0.3

### PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	39,306
ENDING	40,264
CHANGE	+958

### GOLD RATE

	(10 gm)
STARTING	PKR 57,613
ENDING	PKR 57,442
CHANGE	-171

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grew mainly due to a 6.5pc increase in the production of syrups. However, tablets, capsules and injections went down by 1.18pc, 32pc, and 52.8pc, respectively. In the non-metallic mineral products, cement dipped 10pc in November over same month last year while among autos, tractor production plunged 33.8pc, light commercial vehicles 32.2pc, trucks 16.3pc and motorcycles shrank by 12.3pc during the period under review. However, buses soared by 421pc and jeeps and cars 6.2pc.

## Uptick in Textile Exports

Textile and clothing proceeds recorded an uptick of 0.06pc year-on-year to \$6.64 bn during 1HFY19. In December, however, the export proceeds fell by 0.68pc to \$1.13 bn as compared to same month last year. According to data published by the Pakistan Bureau of Statistics, in 1HFY19, exports of ready-made garments edged up 0.89pc, knitwear jumped 10.5pc, bedwear 3.23pc whereas towel exports declined 2.03pc and cotton cloth 1.34pc in value. Among primary commodities, cotton yarn exports declined by 17.14pc, tents, canvas and tarpaulin 0.83pc while yarn other than cotton inched up 0.22pc, made-up articles (excluding towels) increased 1.57pc.

## 2019 to be Year of Industrial Cooperation Between China and Pakistan

China and Pakistan agreed to make 2019 the 'year of industrial, socio-economic and agriculture cooperation' as Beijing promised to despatch a series of business delegations over the next two months to move forward on at least four special industrial zones during the year. As a follow up to the recently concluded Joint Cooperation Committee (JCC) of the China-Pakistan Economic Corridor (CPEC), Minister for Planning and Development and Chinese Ambassador had a meeting here recently regarding the visits of Chinese investors to the country, according to a press release issued by the commission.

## FDI Jumps 17pc in December

The foreign direct investment (FDI) jumped by 17pc during December 2018, according to latest data released by the State Bank of Pakistan (SBP) recently. The FDI increased to \$319 mn during December from \$272.8 mn in the same month last year. Higher inflows during the month improved

overall six-month FDI figures since total direct investment during July-Nov slumped by 35pc. In line with the trend since the announcement of China-Pakistan Economic Corridor, China emerged as the leading investor in the country pledging \$760 mn — making up for almost 58pc of the total investment during the six months — followed by UK with \$116 mn. The drop is attributable to the slowdown in CPEC-related projects. UK ranked second in the list of top investors as it invested \$116 mn during the first half of the fiscal year with the US investing \$54 mn, Japan \$54 mn, South Korea \$59.6 mn and Netherlands \$53 mn.

## Five-year Revival Plan for PIA by March: CEO

Pakistan International Airlines (PIA) will submit a five-year 'Strategic Business Plan 2019-2023 to the government by March. PIA's financial restructuring will be carried out through government support and at the same time the current fleet will be reviewed and purchase of new aircrafts will be decided, the CEO said. Explaining PIA's financial health, he said the current operational losses are at Rs.3 bn per month but this bleeding would be successfully plugged. The accumulated losses have risen to Rs. 431.1 bn, while loans/borrowings have touched Rs. 247.7 bn.

## Housing Finance Remains Flat

The outstanding housing finance inched up 1.8pc to Rs. 89.79 bn in the first quarter of 2018-19, from Rs. 88.18 bn in same period last year. Latest data issued by the State Bank of Pakistan (SBP) show that despite government's willingness to boost housing projects on large scale, both the financing for housing and number of borrowers only showed modest growth in July-Sept FY19. The number of borrowers also slightly increased to 62,399 by 1QY19 end versus 62,062 in at the close of previous quarter. The government had promised to build 5 mn low-cost houses across the country in its manifesto and soon after forming the government, launched a Naya Pakistan Housing Scheme.

## SBP Expands Financial Literacy Program

The State Bank has decided to expand its National Financial Literacy Program (NFLP) to create awareness among the masses and in this regard a mass media campaign has been launched from January 15. Apart from reaching out to



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the public via print, radio and social media, a dedicated NFLP toll free helpline and website would also be launched on the said date. SBP is implementing NFLP as one of its flagship programs to provide basic financial education to unbanked and low-income strata, especially the youth and women, the bank said.

## POTATO POPS

- The latest agricultural statistics (2017) show that potato is grown on 170,300 hectares with a total production of roughly 4.0 mn tonnes. (A hectare is equal to 2.47 acres.)
- In Punjab, the 12-district belt that runs from Kasur to Khanewal district in the South, is the hub of potato production for it gives over 95pc of the national produce.
- About 5000 varieties of potato exist worldwide. In Pakistan both white and red skin varieties are cultivated but red skinned are mostly liked by consumers.
- Red and white skin potato varieties are cultivated in the country. The white skin varieties are Santé, Multa, Diamant, Hermes, Lady Rosetta, Ajax and Patrones while the red skin varieties include Lala Faisal, Ultimas, Desiree, Cardinal, SH – 5, Kuroda, Oscar and Symphonia
- Potato consumption in Pakistan is showing an upward trend, now annual per capita intake is over 15 kg, up from around 10 kg a decade earlier.
- Pakistan ranks 20th among the potato-producing countries in the world.

## INTERNATIONAL VISTA

### China's US Trade Surplus Hit Record in 2018, but Tariffs Bite

China's trade surplus with the United States hit a record high last year but the country's imports and exports fell in December as the long-running trade war begins to bite in the world's number two economy, data showed recently. The surplus with the US is a major source of anger within the Trump administration, which imposed tariffs on hundreds of billions of dollars on Chinese goods last year and has warned of more to come. Despite the levies, exports to the United States grew 11.3pc last year while imports rose 0.7pc, expanding the surplus to a record \$323.3 bn from \$275.8 bn in 2017, customs data show.

### Nepalese Invest in Tax-haven Nations

Over 50 Nepalese have invested in offshore companies, exploiting secretive tax regimes and breaking Nepal's law, which bars investment in foreign countries, an investigation by the Centre for Investigative Journalism (CIJ) has found. The report Nepal Leaks 2019: Illegal Wealth Watch, based on an analysis of over 3,000 financial and court documents and interviews with over 70 individuals, was published recently. Those involved in offshore investment include politicians to high-flying businessmen, some of whom are non-resident Nepalese to doctors and hoteliers, as well as at least half a dozen individuals whose names were previously unheard of in the public sphere.

### Global FDI Declined in 2018, Says UNCTAD

Global foreign direct investment (FDI) inflows fell by 19pc, in 2018, to an estimated \$1.2 trillion — a level comparable to the low point reached after the global financial crisis of 2008, a new report of UN Conference on Trade and Development (UNCTAD) said recently. The latest 'Global Investment Trend Monitor' says that the decline was concentrated in developed countries, while FDI in developing countries remained resilient. Looking ahead, a rebound is likely in 2019 but the underlying trend remains weak, the report says. On the positive side, green-field project announcements—an indicator of future trends—increased by 29pc albeit from relatively low levels in 2017.



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## Amazon France Under Fire for Destroying Unsold Goods

US online retailer Amazon faced new French government pressure after a TV report showed it destroying thousands of new diapers, toys and other unsold or returned items in perfect condition. Brune Poirson, a secretary of state for France's ecological transition, said that she was 'shocked' by the allegations and would render businesses 'responsible' for such practices.

## World's 26 Richest Own Same as Poorest Half of Humanity: Oxfam

The world's 26 richest people now own the same wealth as the poorest half of humanity, Oxfam said recently, warning that "out of control" inequality is stoking popular anger and threatening democracies. "We are seeing rich people running away with wealth and poor people sinking in poverty," Oxfam executive director Winnie Byanyima told in an interview. A new report from the charity was published ahead of the World Economic Forum in Davos — a week-long meeting of the global elite, with three of the 26 richest people set to attend. The report found that billionaires around the world saw their combined fortunes grow by \$2.5 bn (2.2 bn euros) each day in 2018, an annual increase of 12pc, and urged governments to slap more taxes on the wealthy. The world's richest man, Amazon CEO Jeff Bezos, saw his fortune increase to \$112 bn last year, Oxfam said, pointing out that just 1pc of his wealth was the equivalent to the entire health budget of Ethiopia, a country of 105 mn people.

## At Davos, China Slowdown is 'No Disaster'

The slowdown in Chinese growth has become the latest looming cloud over the global economy, but at the World Economic Forum in Davos, the advice from Beijing was not to worry. "China is slowing down but it is not going to be a disaster," said Fang Xinghai, vice-chairman of China's Securities Regulatory Commission. At 6.6pc growth, the state of the Chinese economy became a world concern, a sentiment not helped by the festering trade war with the US that has destabilized world markets.

## MANAGEMENT OUTLOOK

### Google Pays Tribute to Father of Pakistani Cricket

Google on Thursday (January 17, 2019) released a doodle in honour of the legendary Pakistani cricketer, Abdul Hafeez Kardar, on what would have been his 94th birthday. The search engine giant remembered Mr Kardar — who is affectionately known as "The Skipper" — with a doodle showing the cricketer play an elegant shot on the front foot. "One of the few players to have played Test cricket for both India and Pakistan, Kardar captained Pakistan's first Test team and is widely remembered as the father of Pakistani cricket," Google said in its post describing the cricketer.

### TIPS

#### Tips for Managing Your Most Creative Employees

Some bosses wonder how to manage creative people. Research suggests that they may in fact have a different type of personality. But that does not mean you need to manage them in a completely different way — a lot of the same rules apply. Here is what to focus on: Make sure there is a good fit between their creative tendencies and their role, so you can tap into the full range of their talents. Surround them with detail-oriented project managers who will handle the implementation of their ideas. Do not worry if their approach to work is nothing like yours — as long as they are meeting deadlines. Prove that your company truly values creativity by rewarding people who come up with innovations. And apply the right amount of pressure to projects — too little will lead to a lack of motivation, and too much will create stress that inhibits creativity. Organizations that provide their most talented people with personalized development plans and mentoring opportunities and that promote a culture of support and inclusion, will benefit from increased creative performance.

(Adapted from *Motivating Your Most Creative Employees*, by Tomas Chamorro-Premuzic and Reece Akhtar-HBR.)





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## The Three Kinds of People You Want on Your Big Project

When you are staffing a high-profile project, you want an all-star team. But it is not enough to put your high performers on the task. There are three types of people who should be on the team of any breakthrough initiative. First, look for employees who are comfortable with uncertainty. You need individuals who will remain curious and focused even when the project is far from the end goal. Second, be sure you have people who create structure within chaos and take action. These workers can drive a team forward even when circumstances change. Finally, find employees who have a combination of three critical traits: divergent thinking (the ability to connect seemingly unrelated information and ideas); convergent action (the ability to execute on ideas and create something tangible); and influential communication (the ability to share knowledge in a coherent, compelling way). Lots of people have one of these critical traits, but your project team needs employees who have all of them.

(Adapted from *If Your Innovation Effort Isn't Working, Look at Who's on the Team*, by Nathan Furr et al-HBR.)

## World Bank to Issue World's First Blockchain Bond

The World Bank is taking a step into the brave new world of digital finance to sell the first-ever bond to be issued entirely using blockchain technology. More than just funds, the World Bank aims to gain experience using blockchain—a digital public registry of transactions — that could lead to “a golden future” for financial services for developing nations, a bank official said. The technology is most often associated with cryptocurrencies — like bitcoin — which often raise suspicion about their reliability and volatility, as well as their use for criminal purposes. But because there is yet no central bank-backed digital currency in existence, the two-year blockchain bond will rely on real-world

money: Australian dollars. The Washington -based development lender aims to raise about Aus\$50 million (about \$36 million). The transaction is the brainchild of the World Bank's innovation lab, which has been working on the issue for nearly a year, together with the Commonwealth Bank of Australia. The institution also partnered with Microsoft, which will ensure the platform and software are “solid, bug free, and have no vulnerabilities to attack,” said Paul Snaith, manager of the World Bank's Treasury Operations Capital Markets.

## SNIPPETS

### Hot Off the Press

The number of digital publishing unions in America has increased twentyfold in the last nine years.

### The New Travel Agents

The largest online travel booking websites (Expedia, Booking Holdings and C-Trip) made up nearly 20pc of global travel market sales in 2017.

## Branchless Banking : Quarterly Highlights

- BB Accounts increased by 1.9pc to reach 39.2 mn and active BB accounts increased by 9.3pc to reach 21.8 mn.
- BB transactions grew by 12pc and 18pc in volume and value respectively.
- Rs. 37.9 bn disbursed on account of social welfare payments using BB channels.
- An average of 2.4 mn transactions conducted per day during the quarter.

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

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