



ECONOMIC LETTER

a weekly publication of The Institute of Bankers Pakistan

Page No. 01

VOLUME 16

ISSUE 26

JUNE 25, 2021

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

PAKISTAN TIDINGS

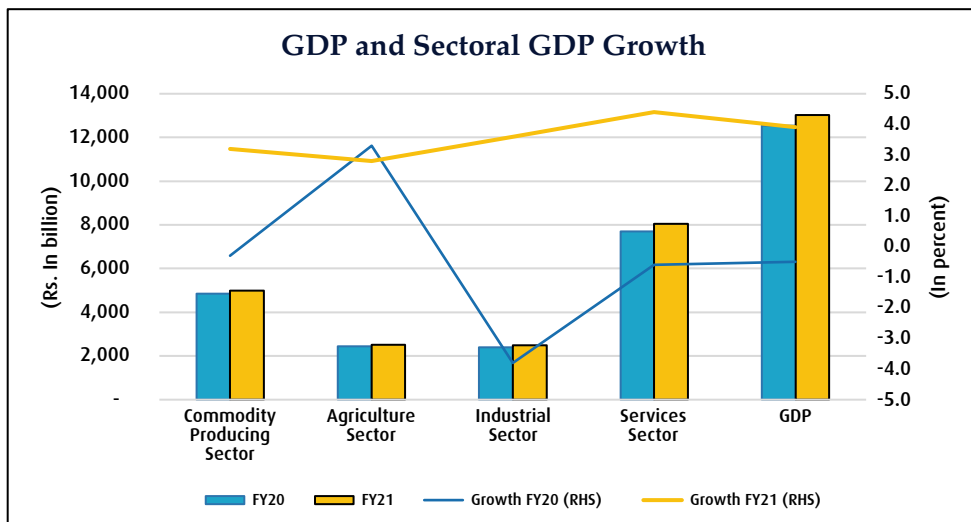
COVID-19: Impact of SBP's Measures as of May 17 – June 17, 2021

			(Rs. in billion)
Loans Deferred*	657.0	Loans Approved for Hospitals	15.6
Loans Restructured*	253.6	Loans Approved for Investment	436.0
Loans Approved for Wages*	238.0	ATMs' Availability	97 Percent

*Since the schemes are no longer available, the data has not been updated after November 13, 2020 and April 16, 2021 in the case of Loans Approved for Wages and Loans Deferred/Restructured, respectively.

Broad-based Recovery Witnessed in Economic Growth during FY21

After experiencing uneven growth during FY20, the performance of all major sectors of the economy posted across the board recovery during FY21, despite COVID-19 pandemic. This is testimony to the fact that Pakistan did much better in coping up with the pandemic compared to many countries. The government took several important policy decisions: monetary and fiscal measures, smart lockdowns, rapid vaccination etc. National Command and Operating Centre (NCOC) as a single organization was made responsible to take key decisions in collaboration with the provinces. Situation was put under control due to government's timely decision making; the numbers of daily COVID-19 cases are presently on declining trend.



The GDP growth of 3.9 percent achieved during FY21 could be possible on the broad-based recovery witnessed in the growth of agriculture, industrial and services sectors. The significant growth in commodity producing sector at 3.2 percent, through the spillover effect, gave impetus to the growth in services sector which grew by 4.4 percent as against negative growth of 0.4 percent registered during the previous year.

MARKETS AT A GLANCE

Rates taken till Friday, June 25, 2021

MONETARY POLICY RATE

7pc | Effective from June 25, 2020

KIBOR (6 MONTHS)

	Bid%	Offer%
STARTING	7.45	7.70
ENDING	7.44	7.69
CHANGE	-0.01	-0.01

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 217.79	PKR 186.99	PKR 156.89
ENDING	PKR 219.21	PKR 188.23	PKR 157.62
CHANGE	+1.42	+1.24	+0.73

PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	48,238
ENDING	47,603
CHANGE	-635

GOLD RATE

(10 GM, 24K)

STARTING	PKR 95,850
ENDING	PKR 92,850
CHANGE	+3,000



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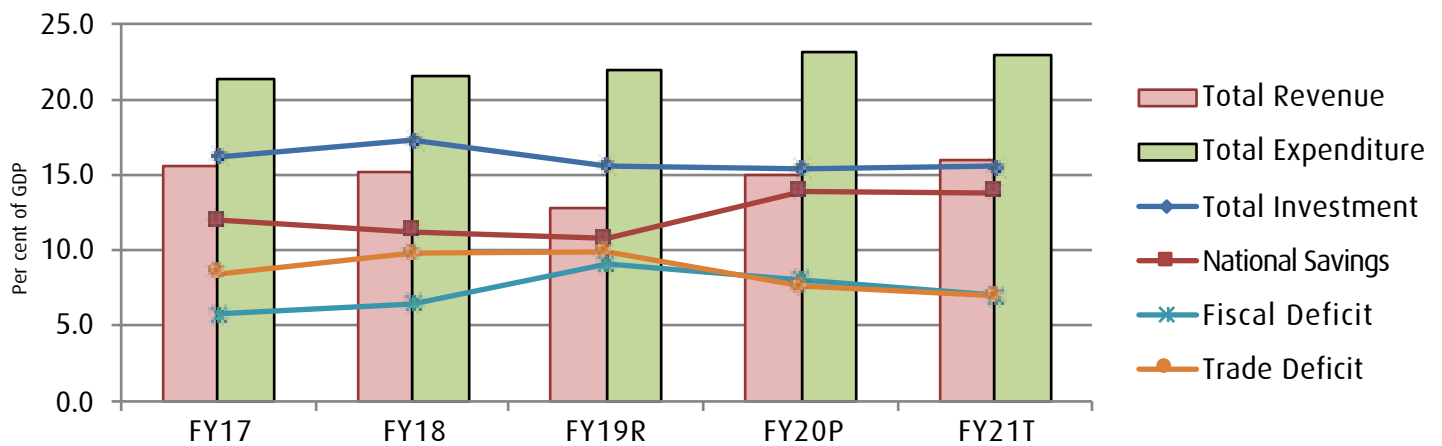
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Pakistan's Major Economic Indicators

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	APR 2021	MAY 2021
General	4.8	4.7	6.8	10.7	11.1	10.9
Food (Urban)	4.3	3.8	4.6	13.6	15.7	15.3
Non-Food (Urban)	5.1	5.8	8.5	8.3	8.2	8.3

Currency in Circulation as on (Stock data)

Rs. in billion

June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	June 4, 2021	June 11, 2021
3,911.3	4,387.8	4,950.0	6,142.0	7,021.9	7,070.7

T = Target | 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



Banking Briefs – All Scheduled Banks

	(Rs. in billion)			% age change over	
	4-Jun-21	28-May-21	5-Jun-20	Previous Week	Corresponding Week
Investments	13,192.5	13,014.1	10,369.5	1.37	27.22
Gross Advances	8,752.0	8,792.1	8,281.7	-0.46	5.68
Borrowings	4,486.5	4,525.5	3,282.6	-0.86	36.68
Deposits and other accounts	17,721.5	17,635.4	15,464.4	0.49	14.59

The beginning of FY2021 was better in terms of containment of pandemic and economic recovery, however the second wave in late October 2020 and the third wave in March 2021 made government efforts more challenging for containing the pandemic and letting the economic activities continue. Regardless of fiscal constraints, relief provision to vulnerable segments and growth support was the government's utmost priority.

According to the World Bank report on "Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures" published on May 14, 2021, Pakistan was ranked fourth in terms of a number of people covered while third in terms of the percentage of population covered.

President of Pakistan Launches SBP's Policy for Financial Inclusion of Persons with Disabilities

In a major initiative, the State Bank of Pakistan unveiled a comprehensive policy to enhance the financial inclusion of Persons with Disabilities (PWDs) on June 21, 2021. The Honorable President of Pakistan, Dr. Arif Alvi graced the occasion as Chief Guest and launched the policy.

This policy initiative aims at improving financial independence for PWDs by improving access to banking services as well as providing opportunities to contribute as bank employees. An important feature of this policy is that it has been developed in collaboration with Banks and NGOs dedicated to improving the lives of PWDs. In this context, SBP's instructions now require the Board of Directors of banks to approve a policy and strategy framework for the financial inclusion of PWDs, while management will

ensure its implementation. It is expected that this will help ensure that all stakeholders are aligned. Under the policy framework, banks will offer products and services catering to the special needs of all categories of PWDs including the physically handicapped, visually impaired and those with hearing and speech disabilities. Banks have been asked to ensure the availability of essential forms and documents in braille, sign language interpretation services and ramps at the entrances of their branches and ATM vestibules. The importance of respectful and empathetic behavior towards PWDs has been given prominent attention and banks have been asked to create awareness and train their employees in serving customers with PWDs. SBPs policy places special emphasis on giving priority, special assistance and care to this vulnerable segment of society in order to increase their financial inclusion.

In the context of helping PWDs to join banks as employees, an important feature of the policy requires banks to meet prescribed job quota for PWDs and align human resource policies and practices to cater to their specific needs throughout the career cycle. This covers recruitment, retention, capacity building and career development in addition to conventional HR practices. In order to encourage female PWDs, the job quota for PWDs at banks shall ensure at least a 25 percent share for women with disabilities. Moreover, while designing products and services, the banks shall ensure focused and efficient provision of banking facilities to female PWDs. The Honorable President, Dr. Arif Alvi, in his keynote address appreciated the efforts of the State Bank of Pakistan in designing a comprehensive policy to facilitate



PWDs in collaboration with all relevant stakeholders. He drew attention towards the more vulnerable segment of PWDs — women with disabilities, as they may face two-fold discrimination. He expressed satisfaction that the launch of the new policy by SBP will contribute significantly in alleviating the difficulties faced by PWDs, which will enhance their confidence in the financial system significantly. The President hoped that all relevant stakeholders will continue to collaborate on a regular basis to keep the momentum of providing improved infrastructure, service delivery, use of innovative technologies and availability of financing at an affordable cost.

On this occasion, Dr. Reza Baqir, Governor SBP, informed the President about the efforts being made to improve the quality of services for the PWDs and shared his resolve that SBP will continue its efforts, along with banks, towards achieving even higher standards for such services. He acknowledged the valuable input given by various associations of PWDs in these efforts. The Governor said that SBP will work with banks to support the goal that PWDs have equal access and opportunity to participate in economic activities. He emphasized that banks should design and deliver products and services that cater to the special needs of PWDs and make physical and assistive technological infrastructure available for their facilitation. The Governor further mentioned that promotion of diversity and inclusion is an important pillar of SBP's overall policy framework that aims at deepening of the financial system for achieving broad based sustainable growth and development.

SBP Mandates Banks to Use Estimation Models for Assessing Informal Income to Extend Low Cost Housing Finance

In order to facilitate low cost housing finance applicants with informal income, the State Bank of Pakistan (SBP) has asked banks to develop and deploy income estimation model for extension of low cost housing finance to such applicants. This measure is expected to ease difficulties being faced by general public in availing housing finance under Government's Markup Subsidy Scheme (G-MSS), commonly known as Mera Pakistan Mera Ghar. Recently, the Pakistan Banks' Association (PBA), through a consultative process, has developed and circulated among banks a

baseline income estimation model. The purpose of this model is to assess income and repayment capacity on the basis of routine expenditures like house rents, utility bills and educational expenses etc. of a potential borrower who earns from informal sources. SBP has advised banks to use PBA's baseline model, customize the same, or develop their own income estimation model. Banks are required to confirm within 4 weeks that they have made their informal income proxy models operational. The availability of these models is expected to greatly enhance prospects of informal income applicants to secure housing finance from the banks. With this move, it is expected that financially excluded segment will be able to avail financing under G-MSS. On the other hand, this tool will enable banks to expand their outreach and cater to the financing needs of people having informal sources of income. For details, please see the circular at:

<https://www.sbp.org.pk/smefd/circulars/2021/C7.htm>

SNIPS

Do Good to Earn More

Organizations with better Corporate Social Responsibility reputations are 29 percent more successful on future financial metrics than their peers, as per Gallup.

SBP Maintains Free IBFT Pricing for Transactions up to Rs. 25,000 per Month and Allows Capped Charges for Higher Amounts in New Instructions

To cope with the extraordinary situation of lockdowns amid COVID-19 pandemic in 2020, SBP advised banks and other service providers in March 2020 to offer free of cost Inter Bank Fund Transfer (IBFT) services to all their customers regardless of the size of transaction (<https://www.sbp.org.pk/press/2020/Pr-18-Mar-20.pdf>)

The objective was to facilitate bank customers to meet their banking services needs through online services during exceptionally difficult times and to avoid in person interaction to curb the spread of COVID. This step resulted in an overwhelming response by customers, with internet and mobile banking transactions more than doubling in Q2FY21 over the last year. SBP appreciates the support of all service providers for this initiative by allowing free of



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cost interbank fund transfer services to the public without recovering their operational cost and incurring substantial revenue losses. It is encouraging that the COVID-19 situation has improved significantly and despite fluctuating number of cases the overall conditions now allow relaxations in mobility restrictions while following proper SOPs. In this backdrop, SBP reviewed the current IBFT pricing mechanism and has made some changes to ensure that free of charge IBFT services are provided by banks and other financial institutions on a sustainable basis. The new instructions allow banks and other service providers to charge a minimal fee on high-value transactions while protecting and encouraging the low-income segments of population to continue using digital transactions free of cost. SBP has directed banks to provide free of cost digital fund transfer services to individual customers up to, at least, a minimum aggregate sending limit of Rs. 25,000 per month per account/wallet. However, banks may choose to set this aggregate limit at a higher amount as well. This would allow individual customers to make as many free fund transfer transactions remaining within their aggregate monthly limit of free transfers. For transactions above the aggregate limit of Rs. 25,000 per account in a month, banks may charge individual customers, a transaction fee of no more than 0.1 percent of the transaction amount or Rs. 200, whichever is lower. This will enable service providers to recover part of costs they incur on providing inter-bank fund transfer service, and build sustainable and innovative business models.

Nevertheless, the new instructions encourage banks to provide free of cost digital fund transfer services to their customers to promote adoption of digital payments in the country. SBP has also advised banks that all digital fund transfer transactions between different accounts within the same bank (intra-bank fund transfers) shall remain free. Further, incoming interbank fund transfer transactions shall also remain free. SBP has further directed banks to ensure proper disclosure of charged and free IBFT amounts along with applicable fees to their customers by sending regular notifications through SMS, apps and email. After every digital transaction, banks are required to send free of charge SMS to their customers on their registered mobile numbers intimating them about the transaction amount and the charges being recovered.

"There is a Sadaqa to be given for every joint of the human body; and for every day on which the sun rises there is a reward of a Sadaqa (i.e. charitable gift) for the one who establishes justice among people."

THE PROPHET MUHAMMAD ﷺ

Dukan.pk and Extreme Commerce Partner to Create Thousands of Micro-Entrepreneurs through Online Selling

With the common goal of empowering the people of Pakistan to achieve self-sufficiency through e-commerce and digital skills, Dukan.pk has partnered with Extreme Commerce to help local businesses sell online. Extreme Commerce is the largest online selling community of Pakistan with approximately 700,000 members. It has trained and helped thousands of people to sell online and generate over \$100 million in sales through Amazon, eBay and other platforms.

Led by a team of industry veterans, Dukan has helped create over 60,000 online stores, growing 350 percent month on month. It provides local sellers with a free, easy and effective platform to set up their web stores and sell online. This partnership will allow anyone with a smartphone to gain e-commerce selling skills and equip them with easy-to-use technology enabling web store creation, online payments and delivery management. There are currently over 5 million micro and small enterprises (MSMEs) in Pakistan that are eager to join the e-commerce revolution but lack the technical know-how. Pakistan's e-commerce industry grew 84 percent during the COVID-19 pandemic, amongst the fastest growth globally. Monis Rahman, founder and CEO of Dukan, reiterating his commitment to uplift local small businesses said, "Dukan's mission is to let anyone with a smartphone sell online in under one minute. Our partnership with Extreme Commerce will help accelerate this mission by complementing our platform with high quality e-commerce training for local sellers."



Pakistan Aims to Double IT Industry in Two Years with Tech Zones

Pakistan is looking to double its IT industry in two years by setting up dedicated tech zones across the country, after missing out on tech booms that helped nations like India and Philippines become back-end operators for the world.

The world's fifth most populous nation expects to open a dozen such zones by next year, said Amer Hashmi, who heads the government body responsible for developing science and technology zones. It is offering a 10-year waiver on corporate tax and imports of any equipment or building material needed for the areas, which will give Pakistan's IT industry a "catapult push" that could double its size to as much as \$6 billion in two years, he added.

Pakistan is banking on the new tech zones to create employment for its masses of young people — nearly two-thirds of its population is below 30. It is already home to the third-largest gig economy globally after India and Bangladesh, according to Online Labor Index by Oxford Internet Institute. A flood of overseas capital into startups from FinTech to e-commerce that began during the coronavirus pandemic is also creating demand for dedicated zones to serve these industries. Pakistan has tried several times to start similar projects in the past. In 2006, it planned to spend \$1 billion to build dozens of software parks, though that effort failed. This time, the government's efforts will involve attracting global investment to ensure the project takes off.

About half a dozen global companies and 50 domestic firms have expressed interest in setting up in proposed zones, Hashmi said, adding that as much as \$1.5 billion of private investment will pour into these projects over the next two years. He is also convincing the government, which is spending millions of dollars on technology-based projects, to give more contracts to local companies. TPL Corp. is building one such tech zone in commercial capital Karachi. "Pakistan can't have a full blown tech explosion. We don't have the money," said Habibullah Khan, founder at Penumbra, a digital marketing agency that also assists startups. "The latest public-private partnership model makes clear sense."

INTERNATIONAL SCENARIO

Emergency Steps Help Maintain Food Supply

Emergency measures by governments helped keep food supply functioning during the COVID-19 pandemic, but agricultural policies continue to pour out subsidies inefficiently without encouraging sustainable production, the Organisation for Economic Co-operation and Development (OECD) said on June 22, 2021.

As coronavirus spread last year, countries took various steps including the creation of so-called green lanes for cross-border food transport and increased food aid for households, the OECD said. "As a result, policies were generally successful in maintaining the overall functioning of food supply chains, albeit within an overall structure of agricultural support programs that showed little change," the OECD said in an annual survey of farming policy. Reviewing 54 advanced and emerging economies, the Paris-based organization estimated that a total of \$720 billion per year was transferred to agriculture during 2018-2020.

Three-quarters of this support was in aid for farmers, most of which was through what the OECD sees as market-distorting instruments like price controls or production subsidies. Only about 14 percent of total support for the farm sector went towards structural areas like research and development, the OECD said. Support rewarding environmental services were relatively marginal, with just \$1.5 billion out of \$268 billion per year in budgetary payments to producers clearly tied to such services, it estimated. The OECD study echoed criticisms by the European Court of Auditors in a report on Monday that the European Union's huge farm subsidy program is failing to rein in greenhouse gas emissions.

Over 2.75 billion COVID Vaccine Shots Given Worldwide

Over 2.75 billion doses of coronavirus vaccines have been given worldwide so far, figures compiled by Our World in Data, a tracking website, showed on June 23, 2021. China leads the global count with over 1.07 billion jabs, followed by the US with 319.22 million. India has administered 294.63 million shots, Brazil 90.08 million, the UK 74.64



million, Germany 68.17 million, France 48.99 million and Italy 47.17 million. Turkey ranks ninth on the list with over 44.45 million doses given, followed by Mexico, Spain, Indonesia and Russia.

The number of doses administered has exceeded that of the population in 11 countries, chiefly the United Arab Emirates (UAE), Malta, Seychelles and San Marino. The country with the most doses administered by population is the UAE, with 146.73 doses per 100 people. Most COVID-19 vaccines are administered in two doses, so the number of shots given is not the same as the number of individuals fully vaccinated.

"The tongue of the wise man is behind his heart, while the heart of the fool is behind his tongue."

HAZRAT ALI 

Will Basel III Ignite Gold Prices?

Will the new set of international banking regulations — Basel III — coming into force on June 28, 2021 trigger a gold price rally? Bullish industry experts predict that since the new regime warrants a major shift towards allocated gold, it could lead to a liquidity squeeze in the physical gold, sending yellow metal to \$2,100 by year-end. Gold will become a zero-risk asset according to the Basel III framework that comes into force on June 28, 2021 for European banks and on January 1, 2022 for British banks, which analysts believe would be a great game-changer for physical demand.

Commodity analysts at Bank of America, however, are not expecting the new regulations to increase gold demand. Instead, the bank sees costs in the gold market going up and liquidity falling. Goldex CEO Sylvia Carrasco believes that Basel III would affect the gold price more than many people believe leading to a higher spot price. The rationale for higher prices is that Basel III includes the new Net

Stable Funding Ratio requirement, which specifies that an 85 percent Required Stable Funding needs to be held by banks against the financing and clearing of precious metals transactions. "Basel III requires banks or dealers to collateralize 85 percent of the value of their unallocated gold with a Tier 1 asset, which is cash," Carrasco explained. "If people turn to allocated gold, liquidity will be squeezed and prices should go up," she said. Explaining further, Carrasco said if a bank has \$1 billion in gold positions, with \$300 million in allocated gold and the other \$700 million in unallocated gold. "Before Basel III, the bank didn't have to put any collaterals for those positions. But with Basel III, the \$300 million positions in allocated gold are fine. But the \$700 million positions in unallocated gold are now considered risky as equities."

One of the biggest changes for gold is that the precious metal is being reclassified from a Tier 3 asset, which is the riskiest asset class, to a Tier 1 asset, which is currently designated for cash and currencies. The change could make it more expensive to buy and sell unallocated gold. "The biggest impact might be visible at the end of the year before January 1, if Basel III kicks in the UK. In the last quarter of the year, we'll see an impact. At the very minimum, I can see gold go over \$2,100 by the end of the year," she pointed out.

However, Bank of America's commodity strategist Michael Widmer said that faced with the new funding requirements, bullion banks are more likely to either increase transaction costs or reduce their exposure in the precious metal sector. "In our view, rising funding requirements for unallocated gold means that financial institutions either reduce the bullion business or sustain activity and put more funding aside. Bank of America has been neutral on gold prices since the start of the year. It currently expects gold prices to average this year around \$1,845 an ounce. Metals Focus analysts see a more tempered outlook for the precious metal as uncertainty over the global COVID-19 pandemic continues to ease. They expect gold prices to average around \$1,820 an ounce this year, up three percent from last year's average price. However, this year's rally does not compare to the 27 percent jump seen in 2020.



MANAGEMENT VIEWS

It Is OK to Feel Regret

We have all got regrets about missed career opportunities or things we wished we had done or said. That is normal. Rather than trying to quash the feeling, you have got to make peace with it. Start by recognizing your emotions and expressing them, even if only to yourself. What past action or inaction is causing you to feel this way? You may even consider grabbing a pen and paper and writing out what exactly you are feeling and why. Next, try looking to the past with gratitude. Jot down three things you are grateful for to counterbalance the negativity of regret and reframe your outlook. You want to be aware of what you have, not just what you do not have. Finally, make regret productive by thinking about what you can (and cannot) do in the future to avoid this feeling again. It may be that the situation was out of your control and there is little you can do, but if you made a mistake or misstep, use this feeling to change your behavior the next time around.

(This tip is adapted from *It's Time to Make Peace with Your Regrets*, by Vasundhara Sawhney – HBR.)

Fight Loneliness on Your Team

The rates of loneliness at work have risen during the pandemic. This is concerning for both employees and employers, especially since research has linked loneliness to health problems, reduced productivity, turnover and burnout. As a manager, what can you do to help people overcome this feeling, whether you are working remotely, in the office, or in a hybrid environment? Since few employees will tell you outright that they are lonely, keep an eye out for signs such as waning motivation, a reluctance to speak up, or missed deadlines. Focus on building psychological safety in meetings so that people feel safe to connect and be vulnerable with one another. Create the conditions that allow people to express and experience trust and empathy, which helps form closer bonds. Also, assign projects and assignments in a way

that encourages integration. It is easy, especially when working remotely, to default to working in parallel or merely passing the baton from one teammate to the next, but that allows for little true connection. Design work so that people are interacting and collaborating in meaningful ways.

(This tip is adapted from *Employees Are Lonelier Than Ever. Here's How Employers Can Help*, by Constance Noonan Hadley – HBR.)

Making the WFH Case to Leaders Who Want to Return to the Office

As companies start returning to the office, managers are finding themselves caught in the middle between employees who want to keep working from home and senior leaders who want everyone back at their desks. How can you navigate this tension? Start by finding out what is driving leaders' concerns. Do they doubt that people are taking work seriously? Are they worried that employees are not collaborating enough? Once you know what is behind their push to return, find ways to address those concerns. Show that remote work is beneficial to the company, not just to individuals. For example, you can emphasize your ability to retain skilled employees who would otherwise leave. You might point out that remote work offers the ability to draw from a wider talent pool. Consider asking your HR department if they have data on how working from home is paying off for your company. Also, demonstrate that your team is engaged no matter where they are located. For example, you might invite leaders to video meetings that include both in-person and remote workers so they can see that everyone is committed and participating regardless of where they are calling in from. If leadership is applying pressure for employees to come back to the office and you believe there is a balance that could work better for everyone, try these strategies to make your case.

(This tip is adapted from *What to Do If Your Team Doesn't Want to Go Back to the Office*, by Liz Kislik – HBR.)

IBP TRAINING CALENDAR - JUNE 2021



JUNE 26

Saturday

10AM - 2PM

Transaction Monitoring and STR

FACILITATOR: Sumera Baloch

COURSE FEE: PKR 7,000 (Excluding sales tax)

**ONLINE
TRAINING**