



Economic Letter

a weekly publication of The Institute of Bankers Pakistan*

Page No. 01

Volume 14, Issue No. 19 | Date: May 10, 2019

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

PAKISTAN OVERVIEW

Dr. Reza Baqir Appointed as Governor SBP

Dr. Reza Baqir has assumed the charge of Governor State Bank of Pakistan after President of Pakistan appointed him as Governor State Bank of Pakistan for a period of three years in pursuance of Section 10(3) of the State Bank of Pakistan Act 1956. Dr. Reza Baqir has eighteen years of experience with the IMF and two years with the World Bank. He was the Head of the IMF's Office in Egypt and Senior Resident Representative since August 2017. He has also held positions as IMF Mission Chief for Romania and Bulgaria, Division Chief of the IMF's Debt Policy Division, Head of the IMF delegation to the Paris Club, Deputy Division Chief of the IMF's Emerging Markets Division, IMF Resident Representative to the Philippines, and numerous other positions. Dr. Baqir's research has been published in top journals of the economics profession, including the Journal of Political Economy and the Quarterly Journal of Economics. Dr. Baqir holds a Ph.D in Economics from the University of California at Berkeley and an A.B. (Magna cum Laude) in Economics from Harvard University.

Pakistan Does Not Need Additional Taxes to Cover Revenue Shortfall: World Bank

Pakistan has substantial potential to increase tax receipts without imposing new taxes or increasing their rates. The country's tax revenue potential would reach 26pc of GDP, if tax compliance were to be raised to 75pc, which is a realistic level of compliance for lower middle income countries. This means that Pakistan's tax authorities are currently capturing only half of this revenue potential — the gap between actual and potential receipts is 50pc, according to a new document prepared by the World Bank titled Pakistan Revenue Mobilization Project, published recently. This comes against the backdrop of revenue shortfall which the government has sought to diminish with the Washington-based lender's assistance of \$400 mn for the revenue mobilization project to be implemented by the Federal Board of Revenue (FBR) aiming to contribute to a sustainable increase in domestic revenue by broadening the tax base and facilitating compliance. The credit of \$400 mn will come from World Bank affiliate, International Development Association (IDA).

Implementation of CPFTA-II to Begin from 1st July

Advisor to the Prime Minister on Commerce, Textile, Industries and Production, Abdul Razak Dawood said that the implementation of China Pakistan Free Trade Agreement-II (CPFTA-II) is expected to begin from July 1, 2019. The advisor took responsibility for not achieving the export target, citing slower growth in exports against his expectation. He expressed the hope that exports will touch \$24 bn mark. He also acknowledged that Pakistan had not done any market research on its export capacity for China. He said Pakistan has gained incentives to what are

MARKETS AT A GLANCE

Rates are taken till Friday 1:00 pm (Due to Ramadan)

KIBOR (6 MONTHS)		
	Bid%	offer%
STARTING	10.99	11.24
ENDING	11.28	11.53
CHANGE	+0.29	+0.29

FOREIGN EXCHANGE RATES			
	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 184.50	PKR 158.50	PKR 141.10
ENDING	PKR 184.30	PKR 157.30	PKR 141.20
CHANGE	-0.2	-1.2	+0.1

PAKISTAN STOCK EXCHANGE	
100 Index	
STARTING	36,122
ENDING	34,716
CHANGE	-1406

GOLD RATE	
(10 gm)	
STARTING	PKR 58,556
ENDING	PKR 58,300
CHANGE	-256

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Page No. 02

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available to ASEAN countries without giving China import facilities as given by ASEAN nations. He further stated that initially China refused to give duty free access to 313 Pakistani items but later accepted Pakistan's request. The list of items has been placed on the website of Commerce Division.

Startups Need Enabling Environment to Thrive

Pakistan needs a lax regulatory environment for startups and investors alike, in the form of simpler business structures and tax breaks for the former and incentives for the latter, said Invest2Innovate Ventures Managing Partner Misbah Naqvi. She was addressing the panel discussion 'Fund Raising - the Venture Capital Lens' at the two-day Momentum Tech Conference, which concluded recently. During the session, panelists shared their thoughts on the local ecosystem, impediments, investment approaches among other things. Faisal Aftab of Lakson Investments said that technology is not only facilitating rapid expansion of formal economy, but also helping capture hidden business activity.

Rising Interest Rate Hampers Dream

The dream of cheap housing in the country may remain only a dream as the interest rate hikes have undermined the low-cost housing program. Financial institutions are charging as high as 15-18 pc interest on housing loans despite low-rate supply of liquidity from the World Bank through a refinancing company. House Building Finance Company (HBFC) has disbursed Rs. 2 bn for promoting low-cost housing in the country," Pakistan Mortgage Refinance Company (PMRC) CEO Mudassir Khan said. The company received AAA credit rating for long term and A1+ for short term a few days back.

Pakistan Petroleum Ltd Finds Hydrocarbons In Jamshoro

Pakistan Petroleum Ltd announced the discovery of hydrocarbons from exploration well Unarpur-1 ST-1 in the Kotri North block in Jamshoro, Sindh by joint venture partners of Exploration Licence of the block. United Energy Pakistan Ltd is the operator holding 50pc working interest, followed by PPL with 40pc and Asia Resources Oil Ltd 10pc. PPL said that

the Unarpur-1 ST-1 was spud on Nov 2, 2018 and drilled to a total depth of 12,920 feet to test for hydrocarbon potential of the Lower Basal Sand of the Lower Goru Formation. Based on wireline logs and drilling results, a completion integrity test was done in the promising zone, which confirmed hydrocarbons in the Lower Basal Sand. (*Hydrocarbon is a compound of hydrogen and carbon, such as any of those which are the chief components of petroleum and natural gas*).

Rice Remedy

- After wheat, rice is the second most important staple of Pakistan. Through exports, it contributes significantly to the country's exchequer.
- This is especially true for basmati rice which is known for its aroma and quality, and is a specialty of the country. Rice is grown in all provinces on an area of 7,164 thousand acres. However, it consumes a lot of water.
- Transplanted puddled rice (TPR) is the preferred mode for growing the crop in Pakistan. A puddled field is one where the soil is ploughed under 10-12 inches of standing water. In TPR, rice seedlings are raised in nurseries till they are 4-6 weeks old, before being transplanted to puddled fields.
- Rice is a water loving cereal. It takes about 3,000 to 5,000 liters of water to produce one kilogram of rice. 93.6pc of fresh water in Pakistan is consumed by agriculture of which rice accounts for 35pc.
- Due to declining water resources and high water requirement of TPR, it is the need of the hour to enhance water-use efficiency and water productivity. Among various technologies, dry direct seeded rice (DSR) is the best option for water conservation.



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INTERNATIONAL VISTA

Italy's Debt To Rise Up

Italy's huge debt pile is expected to rise this year as the country's economy limps along, the European Commission (EC) said recently in quarterly forecasts that could reignite a dispute with Rome over its budget. Brussels marginally cut its 2019 growth outlook for Italy to 0.1pc from an already gloomy 0.2pc. The economy expanded 0.9pc last year. The commission also said it expected growth in the wider eurozone economy to slow more than previously estimated, to 1.2pc. But its forecast for Italy is the lowest in the bloc, and the commission said it expected that to weigh on the country's public finances, with debt and deficit levels seen climbing far beyond EU fiscal rules.

Kuwait Opens Massive Causeway to Free Trade Zone

Kuwait recently inaugurated one of the world's longest causeways, linking the oil-rich Gulf state's capital to an uninhabited border region set to become a major free trade hub. The 36-kilometer (22-mile) bridge connects Kuwait City to the northern desert area of Subbiya, where Kuwait aims to create the "Silk City" project linking the Gulf to central Asia and Europe. The "Jaber" bridge, named after late ruler Sheikh Jaber Al-Ahmad Al-Sabah, spans 36 kilometers (22 miles), three-quarters of it over water. It cuts the driving time between Kuwait City and Subbiya, close to both Iraq and Iran, from 90 minutes to less than half an hour. Investment in the Silk City project is expected to top \$100 bn, and a 5,000-megawatt power plant has already been built in Subbiya. (A causeway is a raised road, usually built on an embankment, often running across water or swampy land).

India, US to Resolve Trade Issues

India and the United States will engage regularly to resolve outstanding trade issues, the Indian government said, after US Commerce Secretary met his Indian counterpart recently. India and the United States are locked in disputes over tariffs, price caps India has imposed on imported US medical devices and over rules banning companies from selling

products via firms in which they have an equity interest. US Commerce Secretary Wilbur Ross had said earlier he planned to discuss India's new e-commerce rules that could have an impact on operations of firms such as Amazon and Walmart with his Indian counterpart. India also prohibits companies from making deals with sellers to sell exclusively on their platforms, rules which could affect investment plans of foreign firms in India's fast-growing market set to touch \$200 bn by 2027.

May Tells Labour for a Deal on BREXIT

British Prime Minister Theresa May recently urged main opposition Labour leader Jeremy Corbyn to work with her to break the BREXIT deadlock, telling him: "Let's do a deal". May said she understood why hardcore BREXITEERS in her own Conservative Party, who want a clean break with the European Union, would wince at the prospect of striking a softer agreement with the veteran socialist. But she insisted the clobbering both main parties took in last week's English local elections had increased the necessity of finding an EU divorce deal that a majority of MPs could get behind, even if many of her own backbenchers were not among them.

Greece Needs Big Bond Investors

As Greece readies for its next foray into international bond markets, it will be hoping to draw more big name, mainstream asset managers rather than the hedge funds who have been its main clients in recent years. Since coming off life-support in 2018, Greece has been trying to leave a nine-year debt crisis behind. It applied earlier this month to repay early 3.7 bn euros of high-interest debt it owes the International Monetary Fund, replacing it with cheaper market-based borrowing. It sold two new bonds in January and March and plans to return to the market by June. And a major barrier looms here - a credit rating that is deep in junk territory means Greek debt is excluded from major indexes that global asset management firms use as benchmarks. There are signs, though, that recent ratings upgrades and an improving economy are starting to put Greek bonds back on the radar of big investors.



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MANAGEMENT OUTLOOK

US Rejects Tesla Bid for Tariff Exemption for Autopilot 'Brain'

US trade officials rejected Tesla Inc's bid for relief from President's 25pc tariffs on the Chinese-made Autopilot "brain" of its Model 3 and other electric vehicles, one of more than 1,000 product denials linked to China's industrial development plans. According to documents filed by the US Trade Representative's office (USTR), exclusion requests from Tesla and others for Chinese-made products from aircraft parts to biotechnology instruments were denied because they were deemed "strategically important" to the "Made in China 2025" program.

ADB Emphasizes Climate Change

Amid concerns over trade disputes and challenges posed by climate change, Asian Development Bank's (ADB) 52nd annual meeting of the board of governors concluded in Fiji on a positive note: fighting the challenges and achieving prosperity through unity. ADB launched a \$ 5 bn fund and an action plan to fight climate change challenges and ensure healthy oceans and sustainable blue economies. President Takehiko said the action plan would expand financing and technical assistance for ocean health and marine economy projects from 2019 to 2024 through co-financing from partners. It will focus on four areas: one, to create inclusive livelihoods and business opportunities in sustainable tourism and fisheries; two, to protect and restore coastal and marine ecosystems and key rivers; three, to reduce land-based sources of marine pollution, including plastics, wastewater and agricultural runoff; and four, to improve sustainability in port and coastal infrastructure development.

Who Will Succeed Billionaire Warren Buffett?

As the annual shareholder meeting of Berkshire Hathaway held recently, a key question hangs over the gathering: who will take the reins of the empire built by 88-year-old billionaire Warren Buffett? "Warren Buffett is irreplaceable," said Macrae Sykes, a research analyst at Gabelli & Company. But Meyer Shields, managing director at the investment firm Keefe, Bruyette & Woods, was less concerned. "Berkshire Hathaway can certainly survive without Warren Buffett," he said. After all the conglomerate is made up of "mostly solid businesses that are only minimally impacted by their ownership." Investors are not expecting major upheaval, since Buffett has taken steps in recent years to carefully prepare for a leadership change, although he has not made the plan public.

Want to Read Books More? Read Your Phone Less

Maybe you think you do not have enough time to read books. But consider how many texts, emails and tweets you read each day — and how much time you did get back by cutting some of that out of your life. Making your phone less addictive can help. Move all apps off the main screen so that your phone is blank when you open it. Use 'Do Not Disturb' to quiet your notifications. If your screen is cracked, leave it that way. And for a real challenge, keep your charger in the basement (or anywhere hard to reach). Next, change your reading habits. Instead of using a Kindle or an iPad, try paper books. They immerse you in the story, they show off what you are reading to others — and best of all, they do not interrupt you with text messages. To motivate yourself, remember: research has shown that reading makes us more empathetic, compassionate and understanding. (Adapted from *8 Ways to Read the Books You Wish You Had Time For* by Neil Pasricha-HBR.)

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