



Economic Letter

a weekly publication of The Institute of Bankers Pakistan*

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Volume 14, Issue No. 25 | Date: June 21, 2019

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

PAKISTAN OVERVIEW

Trade with Pakistan at Record High

Alice G. Wells, State Department Official underlined this change in a statement to the House Foreign Affairs Subcommittee for Asia and the Pacific. Wells informed the lawmakers that in 2018, US-Pakistan bilateral trade reached an all-time high, exceeding \$6.6 bn. US exports to Pakistan rose 4pc to \$2.9 bn, also an all-time high, and the trade deficit sunk to 2pc, or \$782 mn. Trade in agriculture was a particularly bright spot. US soybean exports went from \$0 in 2014 to \$689 mn in 2018. She noted that Pakistan was a market of more than 200 million people, including a growing middle class, and that is why it provides ample opportunities for US trade and investment to grow further. According to the US Trade Representative's office in Washington, Pakistan is currently America's 56th largest trading partner during 2018. US exports totaled \$2.9 bn while imports from Pakistan totaled \$3.7 bn. The US goods trade deficit with Pakistan was \$783 mn in 2018.

FDI \$1.606 bn in July-May

According to data released by the central bank, the total FDI amounted to \$1.606 bn during the July-May period of the outgoing fiscal year compared to \$3.161 bn in the same period last year. Country-wise foreign investment from China, during the 11 months stood, at \$495.7 mn. The inflows from United Kingdom amounted to \$171 mn. Furthermore, inflows from the US amounted to \$84 mn during the 11 months. Inflows from Hong Kong clocked in at \$130.8 mn, FDI from Norway and Japan recorded significant increases during the 11 months under review. FDI from Norway reached \$110 mn against an outflow of \$17.8 mn in the same period last year whereas Japanese investment in the country doubled to \$104.8 mn compared to \$55mn in the same period last year. United Arab Emirates emerged as the only Muslim nation to invest a significant amount in the country as the FDI from Abu Dhabi reached \$91 mn against an outflow of 1.1mn during the same period last year.

Incentives to Boost Tech Usage in Export Sectors

The government took several facilitation measures to incentivize use of technology to boost exports from the country. Through the Finance Bill 2019, the government has reduced retention period from 10 years to 5 years of plant, machinery and equipment brought under export facilitation schemes. After this amendment, now if export-oriented units intend to dispose off their machinery prior to the period of five years, further option is made to pay duty and taxes against the different depreciated rates after three years. This facility is also extended to units operating within export processing zones. Moreover, it has also been decided to revalidate the licenses of export-oriented units for two years.

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 MONTHS)

| | Bid% | offer% |
|----------|-------|--------|
| STARTING | 12.80 | 13.05 |
| ENDING | 12.81 | 13.06 |
| CHANGE | +0.01 | +0.01 |

FOREIGN EXCHANGE RATES

| | GBP (£) | EURO (€) | USD (\$) |
|----------|------------|------------|------------|
| STARTING | PKR 193.00 | PKR 172.00 | PKR 152.50 |
| ENDING | PKR 196.50 | PKR 175.50 | PKR 156.00 |
| CHANGE | +3.5 | +3.5 | +3.5 |

PAKISTAN STOCK EXCHANGE

| | 100 Index |
|----------|-----------|
| STARTING | 35,572 |
| ENDING | 35,125 |
| CHANGE | -447 |

GOLD RATE

| | (10 gm) |
|----------|------------|
| STARTING | PKR 62,243 |
| ENDING | PKR 66,272 |
| CHANGE | +4029 |



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Forex Market: SBP Keeping a Close Eye

State Bank of Pakistan Governor Reza Baqir at a press conference recently expressed confidence in the country's economic future, and provided assurance that the "two main causes of our instability are being effectively addressed in a credible manner". The SBP chief, describing uncertainty as "the biggest opponent" facing the economy, stressed the need to "proceed in a way that eliminates this uncertainty, and our people get the confidence that we have in the SBP, and that I personally have in a positive future." He then went on to provide an explanation of how the government is tackling the exchange rate and inflation. "Our exchange rate regime should be seen as a part of a broader package of economic reforms. There are a lot of influences on our country's exchange rate policy," Baqir told. "In the past, one of the challenges faced by the SBP has been interference by the government. Specifically, when the government wants to borrow money but is unable to secure a loan from a commercial banks, it turns to the central bank. When the SBP finances the government, it has an inflationary effect and puts pressure on the exchange rate," he explained.

Pakistan Steel to be in Privatization List

Though the government has decided in principle to sell-off Pakistan Steel Mills (PSM), the Cabinet Committee on Privatisation (CCOP) at its meeting recently could not decide on enlisting the PSM on the privatisation agenda since the Ministry of Industries and Production (MoIP) failed to submit its proposal. Last month, the Economic Coordination Committee (ECC) of the cabinet had approved the proposal to privatise PSM which was subsequently endorsed by the Federal Cabinet. The CCOP is the only forum which can enlist public sector entities on the privatisation agenda. According to sources privy to the information, the Privatisation Commission is likely to include PSM on the privatisation agenda once CCOP grants approval to the proposal. The commission is fully prepared to implement the decision, the sources added.

Rs. 40,000 Bearer Prize Bonds to be Registered until March 31 Next Year

The government on Thursday allowed the investors of Rs. 40,000 Prize Bonds (bearer) to register their bonds up to March 31, 2020. In an announcement, the ministry of

finance said the Economic Coordination Committee (ECC) of the cabinet had decided that holders of bearer Rs. 40,000 Prize Bonds could avail the option to convert their bearer bonds into Premium Prize Bonds registered through 16 field offices of the State Bank of Pakistan (SBP) Banking Services Corporation and authorized branches of six commercial banks — the National Bank of Pakistan, United Bank, MCB Bank, Allied Bank, Habib Bank and Bank Alfalah. It said that the ECC had decided that no further draw of Rs. 40,000 Prize Bond (bearer) would be held. However, all the prize money claims on the already held draws will be claimable within six years from the date of respective draw, as per the National Prize Bonds Rules, 1999.

Sania Nishtar, Bill Gates Discuss Health

Special Assistant to the Prime Minister on Social Protection and Poverty Alleviation, Dr. Sania Nishtar met Bill Gates, co-chair, Bill & Melinda Gates Foundation and discussed pressing health and development needs in Pakistan. The Gates Foundation is a major supporter of global health and development around the world. In Pakistan, much of the foundation's work to-date has been focused on eradicating polio, new vaccines introduction, and immunization strengthening. Pakistan and Afghanistan are the only two countries that are still reporting cases of the deadly wild polio virus. In the meeting, Dr Sania Nishtar and Bill Gates discussed key foundation partnerships in Pakistan including the polio eradication program, routine immunization and improving access to digital financial services for the poor.

Export of Services Up 8pc

The export of services jumped by 8.08pc to \$446.05 mn in April, from \$412.69 mn in same month last year, the Pakistan Bureau of Statistics reported recently. Between July-April, the export proceeds posted a paltry growth of 1.70pc to \$4.453 bn year-on-year. The services sector has emerged as the main driver of economic growth with its share in GDP increased from 56pc in 2005-06 to nearly 59pc in 2017-18. Its major sub-sectors are finance and insurance, transport and storage, wholesale and retail trade, public administration and defence. On the other hand, the import of services clocked in at \$7.669 bn in July-April, down 18.58pc, from \$9.42 bn over corresponding months of last year.



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INTERNATIONAL VISTA

Only Eight EU Countries to Phase Out Coal

The EU said recently that eight of its 28 member countries aim to phase out coal-powered electricity by 2030, triggering charges it is missing the mark under the Paris climate deal. The European Commission, the EU's executive arm, said it received the pledges as contributions to the bloc's efforts to deliver on the landmark 2015 deal. Among the European Union countries introducing or confirming such timelines, France intends to phase out coal by 2022 — before Italy and Ireland by 2025. Denmark, Spain, the Netherlands, Portugal and Finland aim to do so by 2030, the Spanish commissioner told a press conference in Brussels. The commission added that Germany, the EU's most powerful economy and biggest polluter, has also indicated it will set "an end date" for coal-based electricity. An EU official said that the remaining 20 countries, including heavily coal-dependent Poland, had not submitted timelines for weaning themselves off the fossil fuel. (Note: a fossil fuel is natural fuel such as coal, petroleum and gas, formed in the geological past from the remains of living organisms).

Population of Earth to Reach 9.7 bn in 2050

The world population is expected to climb to 9.7 bn in 2050 from 7.7 bn today, with the population of sub-Saharan Africa doubling, a United Nations report recently released said. The population could then grow to 11 bn by 2100, according to the United Nations Department of Economic and Social Affairs' "World Population Prospects" report. The study paints a picture of a future in which a handful of countries see their populaces surge as life expectancy lengthens while the global growth rate slows amid declining fertility rates. By 2050, more than half of the world's population growth will be concentrated in just nine countries: India, Nigeria, Pakistan, the Democratic Republic of Congo, Ethiopia, Tanzania, Indonesia, Egypt and the United States.

Free Chickens for Syria's Struggling Farmers

The Syrian government will distribute free chickens and feed to farmers to support rural areas ravaged by years of conflict, an agriculture ministry official told recently. A

cabinet statement said 1 bn Syrian pounds (\$2.3 mn) has been allocated to the initiative, which aims to provide 15 egg-laying chickens and 50 kilograms (110 pounds) of feed to each family. The objective is to "promote poultry farming and financially empower rural families", it said.

European Union Trade Surplus with US Expands, Deficit with China Larger

The European Union's trade surplus in goods with the United States increased in the first four months of 2019 while its deficit with China widened, figures that could further strain global tensions. The European Union's surplus with the United States grew to 48.2 bn euros (\$54.0 bn) in Jan-Apr 2019 from 46.0 bn euros in the same period of 2018, EU statistics office Eurostat reported. With China, the EU's trade deficit expanded to 62.0 bn from 57.2 bn euros. The United States has hit the European Union with tariffs and threatened more in complaint over the trade balance. Both Washington and Brussels have also complained that China wants free trade without playing fair.

EU Set for Big Winter Barley Crop

Europe is facing a strong rise in its 2019 winter barley harvest following massive drought damage a year before, bringing improved supplies for farmers. Winter barley, used for animal feed, suffered massive damage from a heatwave last summer, forcing Europe to make hefty imports of feed wheat and corn. "With normal weather in June and July, the EU is set for a winter barley recovery, with much better feed supplies for farmers and export supplies," one trader said. French analyst Strategie Grains forecasts winter barley production in the European Union will rise 15pc on the year to 30.86 mn tonnes. The EU's top producer, France, is on course for a larger harvest than last year, but adverse weather including heavy rain this month could curb yields. France's farm ministry estimates the 2019 winter barley crop at 8.5 mn tonnes, up 4.6pc from last year. Some forecasters say recent heavy rain could harm some maturing cereal crops.

QUOTE

"The Pessimist Sees Difficulty In Every Opportunity. The Optimist Sees Opportunity In Every Difficulty." – Winston Churchill



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MANAGEMENT OUTLOOK

Facebook Set to Unveil New Cryptocurrency

Facebook is set to unveil a bid to bring cryptocurrency payments into the mainstream, reportedly with the endorsement of governments and financial giants. The world's biggest social network is expected to outline details of a virtual currency launching next year that it hopes will avoid the rollercoaster volatility of "blockchain" technologies such as bitcoin. Facebook is setting up a consortium called "Libra" which, according to the Wall Street Journal, has been joined by more than a dozen companies including Visa, Mastercard, PayPal and Uber. The companies along with venture capitalists and telecommunications firms will reportedly invest around \$10 mn each into the consortium.

Give Employees Flexible Options

Flexibility at work means different things to different people. One person might need to leave early to pick up his or her kids, while someone else may want to work remotely on Fridays. That is why managers looking to create a flexible work culture should avoid a one-size-fits-all approach; dictating exactly how these policies may be used can make them less effective. Talk with your team about your expectations, so there are no surprises later on. For example, if you set a policy that employees may arrive late or leave early when they need to, do you want them to give you advance notice? Get their work done early? Make sure everyone knows what is required of them — and then let them use the policy as they see fit. Of course, trust is going to be a big factor. But if you trusted your employees enough to hire them, you should also trust them to get the work done when and where they prefer.

(Adapted from *What PwC Learned From Its Policy of Flexible Work for Everyone*, by Anne Donovan-HBR.)

Do Not Let Your Expertise Narrow Your Perspective

Having expertise in your field is a positive, but sometimes it leads to overconfidence. You might start to believe your usual methods are the best, or the only way to get things done — which means you miss out on new ideas, fail to anticipate trends and narrow your perspective. To avoid falling into this expertise trap, commit to constant learning and growth. Check your ego by seeking out fresh ideas and revisiting your assumptions about how a project should be carried out. Surround yourself with people who do not look and think like you. Encourage younger employees to share the topics they are excited about and point out key insights you may be missing. And set aside time to reflect on what you have learned from teammates, especially those whose expertise is different from yours. Learning — just like building your expertise — should be a lifelong pursuit.

(Adapted from *Do Not Be Blinded by Your Own Expertise*, by Sydney Finkelstein-HBR.)

Apple Explores Moving 15-30pc of Production Capacity from China

Apple Inc. has asked its major suppliers to assess the cost implications of moving 15pc to 30pc of their production capacity from China to Southeast Asia as it prepares for a restructuring of its supply chain, according to latest news. Apple's request was a result of the extended Sino-United States trade dispute, but a trade resolution will not lead to a change in the company's decision, Nikkei said, citing multiple sources. Earlier this month, credit rating agency Fitch said it views Apple, Dell Technologies Inc. and HP Inc. as potential blacklist candidates if China blacklists US companies in retaliation for restrictions on Huawei.

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