



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan\*

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Volume 14, Issue No. 23 | Date: June 07, 2019

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

## PAKISTAN OVERVIEW

### Rs1.4tr Rise in Revenue Target Set For Next Year

The cabinet has decided to present the budget for the upcoming financial year on June 11 and approved an additional revenue target of Rs.1,400 bn. It was reported that out of Rs.1,400 bn additional revenue, additional taxes of over Rs.700 bn would be levied on the nation.

### Inflation Likely to Rise Over Next Few Years

The average inflation is expected to be 8.5pc in the next fiscal year (2019-20) that may touch 10pc by fiscal year 2020-21, a senior government official revealed. The government is expecting the inflation rate to "remain on the higher trajectory" over the next couple of years owing to second-round effect of currency depreciation, higher energy prices, rising commodity prices in international market and base money creation. The coming increase in energy and petroleum prices due in July will also play a role.

### Austerity Bounces Back on Reforms Agenda

A combination of austerity, revenue mobilization and fiscal consolidation measures envisaged in next year's budget can help bring much needed financial discipline if the three components are in the right proportion. It will be a difficult and uphill journey for the prime minister's financial team which has been described as 'a face of change. However a confident advisor on finance and economic affairs Dr. Abdul Hafeez Shaikh sees the next fiscal year as 'the year of stability'. In the nine months of this fiscal year the current expenditure has swelled to Rs.4.798 tr compared to Rs.4.075 tr a year ago, with galloping debt servicing, fast rising defense spending and substantial duplication of functions at the federal and provincial levels. The awareness on economising on expenditure is very low. There is a lot of waste which can be curtailed by streamlining systems/procedures and digitalization.

### FBR Bags Only Rs.13.5 bn in Nine Months

The government's ongoing campaign against tax defaulters, non-compliant high-net-worth individuals (HNWI) has helped the tax department recover nearly Rs.13.5 bn in the first nine months of this fiscal year. In addition to this, notices have been sent to rich people in order to bring them in the tax net. The total tax demand created through all these initiatives is around Rs.31.2 bn and the remaining will be recovered after completion of the legal procedures besides bringing these individuals and entities into the tax net. The drive has also helped the FBR in receiving 540,000 additional tax returns in TY18 till May 31. The total income tax return has reached 1.92 mn for the tax year as against 1.38 mn in corresponding period last year.

## MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

### KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	12.74	12.99
ENDING	12.78	13.03
CHANGE	+0.04	+0.04

### FOREIGN EXCHANGE RATES

	GBP(£)	EURO(€)	USD(\$)
STARTING	PKR 188.00	PKR 165.00	PKR 148.80
ENDING	PKR 188.00	PKR 167.00	PKR 148.20
CHANGE	0	+2.00	-0.6

### PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	35,974
ENDING	34,659
CHANGE	-1315

### GOLD RATE

	(10 gm)
STARTING	PKR 59,842
ENDING	PKR 59,842
CHANGE	0



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## Pakistan's Financing Needs Grow to 42.3pc

Pakistan's gross financing needs during 2019 increased to 42.3pc of GDP as budget deficit increased to 7pc and maturing debt widened to 35.1pc of the GDP, data released by the International Monetary Fund (IMF) showed recently. The IMF in its fiscal monitor for April said that, "in Pakistan, the overall deficit was 2.5 percentage points of GDP looser than budgeted, owing to underperforming revenues and expenditure overruns related to the political cycle. "The fiscal monitor also warned that many emerging market economies including Pakistan "have become vulnerable to rollover risks if they face large financing needs" amid "rising interest burdens, which exceeded 20pc of total revenue in 2018 in Pakistan."

## Chinese Assembler to Launch 800cc Car

The auto market will witness the launch of a new entrant in the under 1,000cc category, Prince Pearl 800cc, a Chinese-assembled car in September this year. Regal Automobile Industries Limited (RAIL) will start local assembly of Prince Pearl 800cc from August at its Lahore plant under a technical collaboration agreement with a Chinese manufacturer. The vehicle will make inroads following the launch of Suzuki Alto 660cc car in April and a month before KIA Picanto in October.

## Trade Regulatory Bodies to Operate Thru Single Window by 2021

As part of the trade facilitation agreement, the National Single Window (NSW) to manage external trade will be operational by 2021, said Federal Board of Revenue (FBR) Chairman Shabbar Zaidi recently. The proposed window will provide a comprehensive solution for imports, exports, transit trade, trade through border customs stations and air cargo. Moreover, under the system, all 48 regulatory bodies will retain their respective powers while their functions will be carried out through electronic access to the NSW. The NSW, to be completed at a cost of \$163 mn, will simplify procedures and improve predictability and will also eliminate the need for physical engagement between traders and regulators.

## INTERNATIONAL VISTA

### Europe Shows Challenges for US Regulators Targeting Big Tech

As US authorities prepare to investigate Silicon Valley's digital giants, they will look for inspiration and warnings from Europe, where regulators have led global efforts to rein in Big Tech with only mixed results. The European Union's executive commission has slapped Google with multi-billion-dollar fines for repeatedly abusing its market dominance to stifle competition. It has also demanded that online companies explain more clearly to users what happens to their personal data, ordered them to pay back billions in taxes and laid out the case for tougher rules covering the digital economy. National authorities in Britain, Germany, Ireland and France, meanwhile, have mounted their own probes over privacy issues and proposed stricter rules on dangerous content.

### Divided G20 Admits Worsening Trade Wars a Threat to World Economy

The world's top financial policymakers admitted on Sunday that trade tensions had worsened and posed a risk for the global economy, after a G20 meeting that laid bare differences between the United States and other nations. Following 30 hours of wrangling in what one official described as a "tense" atmosphere, G20 finance minister and central bank chiefs produced a hard-fought final statement acknowledging that "growth remains low and risks remain tilted to the downside." "Most importantly, trade and geopolitical tensions have intensified," the G20 said, adding they "stood ready to take further action" if required.

### African Free Trade Zone Takes Effect

An African free-trade zone came into force recently, a step toward creating what the African Union (AU) hopes will be a continent wide market of 1.2 bn people worth \$2.5 tn. The African Continental Free Trade Area had been ratified by 22 countries by April 29, the requisite number for formally notifying the AU. That paved the way for it to take effect 30 days later as stipulated in its statutes. The agreement's operational phase is to be launched on July 7 at an



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AU summit in Niger. There are still a number of outstanding issues to be resolved, including arbitration measures, certifying the origins of goods, tackling corruption and improving infrastructure. Fifty-two of the AU's 55 member states have signed the agreement to establish the free trade area since March 2018, with the notable exception of Nigeria, the largest economy on the continent.

## World's Largest Silent Research Vessel Built in China

The world's largest silent research vessel built by China was officially put into use recently, which will pave the way for the cultivation of innovative deep-sea talent and ocean science study. Dong Fang Hong-3 (DFH-3) has obtained the highest underwater radiated noise level certificate from DNV GL (the world's largest classification society in Norway), making it the world's largest silent comprehensive marine research vessel, Wu Gang, the chief designer of the vessel and an expert at the 708<sup>th</sup> Research Institute of China State Shipbuilding Corporation announced recently. "When DFH-3 dives under water, fish 20 meters away do not notice it," Wu said. According to Wu, the vessel's low-noise control indicator has reached the highest level worldwide. The measured weight of the empty ship was reduced by 0.6pc compared with the initial estimate, and the height of the center of gravity was slightly decreased after the official tilt test of DFH-3 was completed. "This shows that the project team has mastered the key technology: weight and center-of-gravity control of empty vessels," Wu noted, as a research vessel normally has a relatively small displacement and the weight adjustment space of an empty ship is limited.

## China to Prioritize Domestic Rare Earth Demand

Tougher environmental protection efforts have reduced the supply of rare-earth minerals in Ganzhou, a key rare-earth base in East China's Jiangxi Province, where the industry has become more regulated and market-oriented. But as supplies dwindle and prices rise, some affected downstream rare-earth enterprises have urged the central government to prioritize domestic demand over exports, including to the US, to accelerate the development of high-end applications. They believe that high-end products will be a more powerful counter weapon than raw metals

in the China-US trade war. The rare-earth industrial scale in Ganzhou accounts for one-third of China's total, according to a document released by the National Development and Reform Commission, China's top economic planner. The city is also home to 80pc of the nation's heavy rare earths. In Ganzhou, only several state-owned heavy rare-earth miners with certification, which have passed environmental standard tests, are still in operation, he said, describing the local government's environmental endeavor in helping the industry move to an orderly and regulated manner. China is the world's largest exporter of rare earths. In 2018, the country exported 53,031.4 tons of rare earths with a value of 3.39 bn yuan, up 3.6pc year-on-year rise.

## What are the Rare Earths

Lanthanum, cerium, praseodymium, neodymium, promethium, and samarium are the "light rare earths." Yttrium, europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium, and lutetium are the "heavy rare earths." Rare earth metals and alloys that contain them are used in many devices that people use every day such as computer memory, DVDs, rechargeable batteries, cell phones, catalytic converters, magnets, fluorescent lighting and much more. Rare earth elements play an important role in defense matters. The military uses night-vision goggles, precision-guided weapons, communications equipment, GPS equipment, batteries, and other defense electronics, all made from rare earths.

## Mahathir Proposes Common Asia Trading Currency

East Asia should consider a common regional trading currency based on gold to promote commerce, and free the region from relying on dollar transactions, Malaysia's Prime Minister Mohamad Mahathir said recently. Mahathir said the proposed currency could be used for regional trade, but would not replace national currencies for use at the domestic level. "In the Far East if you want to come together, we should start with a common trading currency, not to be used locally but for the purpose of settling of trade," he said at the Future of Asia forum in Tokyo. "At the moment we have to depend upon the US dollar but the US dollar is also not stable. So the currency that we propose should be based on gold because gold is much more stable," he added.



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## Total Gears Up for North Sea Gas Hunt

Deep beneath the cold waters of the North Sea lies what French energy giant Total hopes will help feed Britain's voracious appetite for gas. Total forecasts that the Culzean field, located more than 15,000 metres under the seabed halfway between Scotland and Norway, will cover five percent of Britain's gas requirements. 'There is still life' in North Sea production despite its dwindling energy reserves, Total's Culzean project manager Claus Vissing-Jorgensen told on a recent trip to the Culzean site before drilling begins in the coming days. Accessible by helicopter, Culzean is about 45 miles (70 kilometres) east of the Aberdeen, Europe's self-proclaimed oil capital on Scotland's northeast coast. It comprises three vast and bright yellow platforms, one of which is a structure that runs all the way to the seabed and contains drilling equipment.

## MANAGEMENT OUTLOOK

### Instead of Surveying Your Customers, Interview them

Many companies use surveys to get customer feedback, but often surveys are a pain to complete and people do not put much thought into filling them out. A better way to learn what your customers want (or do not) is to interview them. Real conversations can unearth more-detailed insights than tick-the-box questions can — and they do not have to be time-consuming or expensive. Whether in person or over the phone, ask open-ended questions that will help you learn how the customer thinks and makes decisions. For example, something like "how did you decide to buy our product instead of our competitor's?" will probably reveal more than "how satisfied are you with our product?" You will likely hear a variety of responses, so

keep interviewing customers until their answers start to repeat each other; 12 to 16 interviews is a good place to start. Remember, you are after quality of information, not quantity. It may take fewer conversations than you expect to find out what you need to know.

(Adapted from "Customer Surveys Are No Substitute for Actually Talking to Customers," by Graham Kenny-HBR.)

### Getting Started with AI at Your Company

Artificial intelligence (AI) has the potential to do so much that it can be hard to know how your company should use the technology. To start building an AI strategy, try a few pilot projects. Your goal should only partly be to create value; more important is showing stakeholders why investing in AI is worthwhile. Choose two to three projects to increase the odds of having at least one big win, and make sure they can be done relatively quickly — within six to 12 months. The projects should be specific to your company and should not be too trivial or too ambitious. If possible, tie them to ongoing initiatives, which will make their results easier for stakeholders to understand. Most AI projects create value in one of three ways: They reduce costs, increase revenue or launch new lines of business. Focus yours on at least one of these goals. And if you are still building up your company's AI team, consider working with external partners to get the expertise the projects need.

(Adapted from "How to Choose Your First AI Project," by Andrew Ng-HBR.)

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NOTE: due to Eid holidays the Issue No. 23 is being published on Tuesday June 11, 2019 and as such the rates quoted are as of today.

DONATE FOR THE SUPREME COURT OF PAKISTAN AND THE PRIME MINISTER OF PAKISTAN DIAMER-BHASHA AND MOHMAND DAMS FUND