



Economic Letter

a weekly publication of The Institute of Bankers Pakistan*

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Volume 14, Issue No. 29 | Date: July 19, 2019

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

PAKISTAN OVERVIEW

Monetary Policy Statement

At its meeting on 16th July 2019, the Monetary Policy Committee (MPC) decided to raise the policy rate by 100 bps to 13.25pc with effect from 17th July 2019. The decision takes into account upside inflationary pressures from exchange rate depreciation since the last MPC meeting on 20th May 2019 and the likely increase in near term inflation from the one-off impact of recent adjustments in utility prices and other measures in the FY20 budget. The decision also takes into account downside inflation pressures from softening demand indicators. Taking these factors into consideration, the MPC expects average inflation of 11–12pc in FY20, higher than previously projected. Nevertheless, inflation is expected to fall considerably in FY21 as the one-off effect of some of the causes of the recent rise in inflation diminishes.

SBP Governor Says Exchange Rate Reflects Demand-Supply Gap

Criticizing the overvalued domestic currency in the past as taxing exports and subsidizing imports, Governor State Bank of Pakistan Reza Baqir said the exchange rate policy has now started reflecting the demand-supply gap of foreign exchange inflows and outflows. Speaking at a function with visiting World Economic Forum (WEF) President Borge Brende, the central bank governor talked about good things happening in Pakistan and the causes of economic challenges but noted that cynicism was the biggest risk the country faced at the moment.

Commission to Probe Responsibility for Reko Diq Issue

The Pakistani government will conduct an internal review of International Centre for Settlement of Investment Disputes' (ICSID) "long-standing arbitration" between the state and Tethyan Copper Company (TCC) while a commission will be formed to investigate who was responsible for the predicament that may cost Pakistan \$5.976 bn as reported recently. Earlier ICSID had announced a huge award of \$5.976 bn against Pakistan in the long-running Reko Diq case. The international tribunal which provides facilities for conciliation and arbitration of international investment disputes, rendered its judgement recently - a 700-page ruling against Pakistan in the Reko Diq case.

Remittances Rise 9pc to \$21.84 bn

Total inward remittances in FY19 clocked in at \$21.841 bn, 9pc from FY18, according to recent data published by the State Bank of Pakistan. The data showed that inflows from countries other than those in the Middle East were considerably higher than the preceding year significantly improving the country's foreign exchange reserves. Amongst the gulf nations, highest inflows came from Saudi Arabia at \$5 bn up 2.97pc from the same period last year following improvement

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	12.90	13.15
ENDING	13.73	13.98
CHANGE	+0.83	+0.83

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 199.00	PKR 179.00	PKR 158.70
ENDING	PKR 200.00	PKR 180.00	PKR 159.40
CHANGE	+1.00	+1.00	+0.7

PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	33,672
ENDING	32,458
CHANGE	-1214

GOLD RATE

	(10 gm)
STARTING	PKR 68,844
ENDING	PKR 70,842
CHANGE	+1998



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in bilateral relations between Riyadh and Islamabad. Furthermore, inflows from the United States also grew noticeably by 20.15pc to \$3.409 bn compared to FY19. Remittances from the United Kingdom also grew by 17.9pc as overseas Pakistanis sent \$3.44 bn into the country. Moreover, remittances from the United Arab Emirates grew by 5.98pc in FY19 compared to just 0.7pc in the FY18 as total inflows clocked in at \$4.619 bn. Malaysia has emerged as another important destination for remittances into the country as inflows during FY19 increased by 35pc to \$1.551 bn.

FDI Amounts to \$ 1.737 bn

Data published by the State Bank of Pakistan revealed that FDI during FY 19 amounted to \$1.737 bn. Inflows from China, leading investor in the country, during FY19 amounted to \$540 mn.

13 Projects Worth Rs. 335 bn Approved

The Executive Committee of the National Economic Council (ECNEC), approved 13 development projects worth Rs. 335.61 bn, including revision of the cost of Dasu Hydropower Project. The approval was given during an ECNEC meeting chaired by Adviser to the Prime Minister on Finance and Revenue Dr. Hafeez Sheikh. The meeting approved the foreign exchange component (FEC) of Rs. 189.793 bn which constitutes 56.55pc of the total amount.

Govt to Establish CPEC Authority

Reiterating the government's resolve of 'no compromise' on the development of China Pakistan Economic Corridor (CPEC), Minister for Planning and Development Khusro Bakhtiar recently said that the government would soon establish a CPEC authority to speed up work on projects under it. According to a statement released by the ministry, in order to institutionalize and take forward the cooperation, CPEC Secretariat is being transitioned and elevated into an autonomous authority under Ministry of Planning and Development. The statement said that this transition "will provide a much needed platform for multi sectoral coordination" and will be instrumental in coordinating efforts for development and implementation of future CPEC plans".

ECC Bans Wheat Export

The federal government recently decided to impose a ban on export of wheat and wheat flour amid rising concern over the price hike trend of roti and other wheat products in the wake of low wheat production in the country. During the Rabi season 2018-19, the ministry of national food security and research recorded 24.12 mn tonnes of wheat production against the projected target of 25.5 mn tonnes for the year. The procured quantity of wheat during this year was also 33pc less than the procured quantities of wheat during the last year's corresponding period. To control the price of roti and other wheat products in the local market, the ECC suggested that a meeting of National Price Monitoring Committee (NPMC) be convened with the cooperation of provincial governments. The meeting was briefed that adequate stocks of wheat were available in the country. As per official statistics, the country has 28 mn tonnes wheat in stock against the total requirement of 25.84 mn tonnes of wheat.

Current Account Deficit Shrinks by 31.7pc

The crucial current account deficit (CAD) shrank by another 31.7pc in the July to June period according to latest data released by the State Bank. The CAD came in at \$13.587 bn in this period where it was \$19.897 bn in the same period last year. It has now fallen to 4.8pc of GDP for July to June this year from 6.3pc last year. The CAD has been at the heart of the erosion of the country's foreign exchange reserves that eventually forced the government to seek an IMF bailout.

Huawei to Invest \$100 mn in Pakistan

China's Huawei would invest total \$100 mn in Pakistan during the current year and set up a regional headquarters in Islamabad at a cost of \$55 mn, Vice President of Huawei Group Mark Xueman said on Wednesday. Mark Xueman said Huawei would also invest another \$15 mn in its Technical Support Centre in Pakistan and hire more people for the same, taking the number of its staff from 600 to 800 during the year. He said the company was eager to initiate more projects in Pakistan on grant funding from the Chinese government.



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INTERNATIONAL VISTA

EU Braces for No-deal BREXIT

The European Union is bracing for either a no-deal BREXIT or another delay if Boris Johnson becomes Britain's prime minister next week with a pledge to renegotiate a deal the bloc says it will not reopen. The three-year BREXIT crisis could be about to deepen as Johnson's pledge to leave the EU "do or die" – with or without a deal – on October 31 sets Britain on a collision course with the bloc's 27 other leaders and his own parliament. Such is the concern about the likely impact on the \$18.7 tr EU economy that European capitals are ramping up pressure on Ireland to accelerate preparations for a no-deal exit that could roil financial markets and dislocate trade. The mood in Europe is dark.

Impact of Libra in Japan

Japanese authorities have set up a working group to discuss the impact Facebook's proposed Libra digital coin could have on monetary policy and financial regulation, government sources said, ahead of a G7 finance leaders' gathering where the topic will be high on the agenda. The working group, consisting of the Bank of Japan, the Ministry of Finance and the Financial Services Agency, began meeting this week and will seek to coordinate policies to address the impact Libra could have on regulation, monetary policy, tax and payments settlement, the sources said.

US Manufacturing Sinks

US manufacturing sunk into recession in June after two consecutive quarters of declines amid President Trump's trade wars, a slowdown in China and other trading partners. The decline comes as the United States enters its 11th year of economic recovery and occurs despite Trump's constant pledges to restore America to manufacturing greatness – even though services now drive three quarters of the US economy. Despite jumping in June, manufacturing fell by a 2.2pc annual rate in the April-June period, and total industrial production lost 1.2pc, in both cases the second consecutive quarterly decline, the Federal Reserve said recently. Manufacturing has borne the brunt of tariff uncertainties and slowing in global economic activity, as reported by RDQ Economics in its analysis. The retreat comes even as

American consumers are sustaining their appetite for spending pushing retail sales higher for the fourth straight month, as shoppers in June took home more new autos and furniture and dined out more frequently.

Whitening Money in Bangladesh

A small number of people showed their undisclosed incomes voluntarily and paid penalty and regular tax to legalize the sums, according to data from the National Board of Revenue (NBR). Some 223 taxpayers disclosed their undeclared income amounting to Tk 197 crore in the three years since the fiscal 2016-17, yielding the tax authority Tk 37 crore in tax, according to provisional data from the NBR. The highest amount of black money was whitened during the last caretaker government's tenure amid fear of getting caught by the anti-graft body. During the tenure of the caretaker government Tk 9,682 crore was whitened, which is 70.12pc of the total amount whitened between 1972 and 2013. And the tax authority got Tk 911 crore in tax, according to data from the finance ministry.

Over 2 bn People Lack Access to Safe Food: UN

More than 2 bn people lack access to healthy food, putting them at risk of health problems and many of them live in North America or Europe, the United Nations said recently, urging governments to "look beyond hunger". More than a quarter of the world's population now struggles to eat "safe, nutritious and sufficient food", according to the UN's State of Food Security and Nutrition in the World 2019 report. That includes about 8pc of people in Europe and North America, according to the annual study, which for the first time includes people affected by "moderate food insecurity" as well as outright hunger.

Argentina Receives \$5.4 bn from IMF

The International Monetary Fund (IMF) completed recently a review of Argentina's economic performance, allowing the release of \$5.4 bn to the country in a loan program intended to help stabilize its economy. The IMF board approved the fourth review of the South American country's performance under the loan deal signed last year. "The Argentine authorities continue to show a strong commitment to their economic policy program, meeting all applicable targets under the Fund-supported program," said IMF Managing Director David Lipton in a statement, noting that financial markets have stabilized.



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MANAGEMENT OUTLOOK

Lagarde Resigns as IMF Chief

IMF Chief Christine Lagarde announced that she had submitted her resignation from the global lender, saying she had more clarity about her nomination to be the next head of the European Central Bank. Lagarde said in a statement her resignation was effective September 12, opening the way for the IMF to launch the search for her successor, which is likely to be another European.

Bring Mindfulness to Corporate Training

Many employees come to training sessions with too much on their minds to actually pay attention. To help them focus and learn, try bringing mindfulness into the classroom. The first step is to create a good learning environment. Open spaces are optimal, especially if they have large windows, minimal clutter — and no distractions. As the session begins, stress to employees the importance of staying focused. Ask them to turn off their devices for the entire training, and then take a few minutes for everyone to practice mindfulness. Have people sit still, relax their bodies, focus on their breath and let go of whatever is on their minds. This will help them be open to and process new ideas. You should also ask everyone to stay mindful during breaks. Rather than checking on work, employees should take a walk, reflect or write in a journal. By keeping their minds clear and calm, they will have a better chance of retaining what they learn. (Adapted from *How to Get People to Pay Attention During Corporate Trainings*, by Jacqueline Carter et al-HBR.)

Tell Job Candidates What the Job Will Really Be Like

When you are interviewing job candidates, are you entirely truthful about the role? Or are you only sort of honest? Many hiring managers are afraid of scaring candidates away, so they sugarcoat a job's realities. But finding the right fit requires frankness and honesty — otherwise you could waste time and money by hiring the wrong person. When you are conducting interviews, talk about why a job might

be hard, what it takes to succeed in the company and why the corporate culture is not for everyone. For example, you could say, "In two months, will you be happy with some demanding aspect of the job?" or "You have said you do not mind travelling 80pc of the time. Are you sure that would not become too much?" Do not rely on reading between the lines of a candidate's answers; research shows that direct, blunt questions are the best way to find out the truth. And finding out now, however hard it may seem, is better than having to refill the role later on. (Adapted from *Stop Lying to Job Candidates About the Role*, by Atta Tarki and Jeff Weiss-HBR.)

SNIPS

Calls for Climate Action in Japan

Recently, 93 Japanese businesses, whose revenues make up nearly \$670 bn, came together to demand that the country's government set a goal of net-zero emissions domestically by 2050.

If Your Meeting is Too Big, Repurpose It

Maybe you sent the meeting invite to too many people. Maybe you were surprised by how many folks showed up. Whatever the reason what do you do when a meeting is way bigger than you expected? Try shifting the purpose of the meeting to match its size. If you have more than eight people, do not attempt to solve a problem or make a decision; those tasks are much easier in smaller groups. If you have 18 or fewer, turn the meeting into a brainstorming session for an issue that needs to be resolved. And if you have more than 18, you are best off using the time as an information-sharing session. Alternatively, you could try brainstorming with a large group by dividing people into small teams. At the end of the meeting, one person from each team can report back to the larger audience, keeping things organized and efficient. Of course, if a meeting just seems too unwieldy, do not forget two other options: cancelling it or ending it early. (Adapted from *What to Do When Your Meetings Have Gotten Too Big*, by Anne Sugar-HBR.)

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