



ECONOMIC LETTER

a weekly publication of The Institute of Bankers Pakistan

Page No. 01

VOLUME 16 | ISSUE 02 | JANUARY 08, 2021

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

PAKISTAN TIDINGS

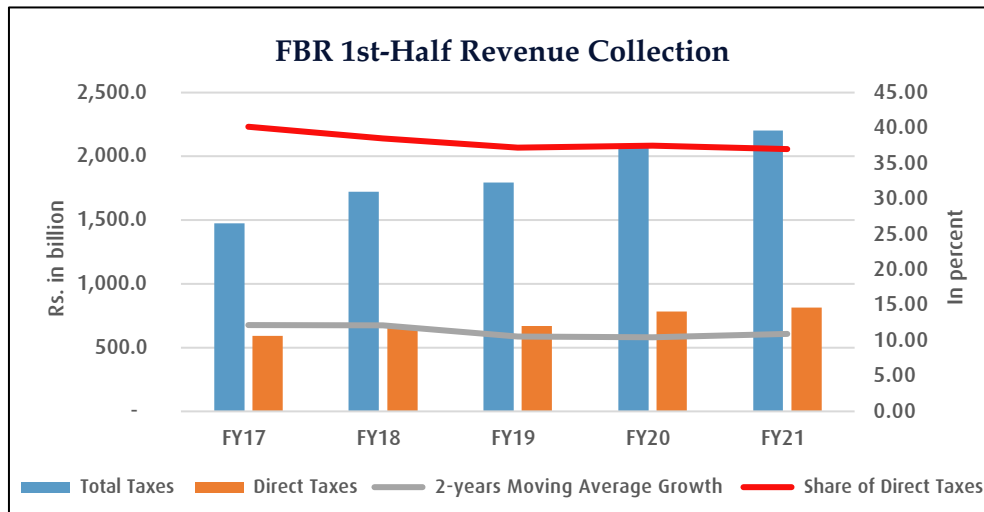
COVID-19: Impact of SBP's Measures as of Dec. 31, 2020-Jan. 04, 2021

			(Rs. in billion)
Loans Deferred	657.0	Loans Approved for Hospitals	8.4
Loans Restructured	217.7	Loans Approved for Investment	277.5
Loans Approved for Wages*	238.0	ATMs' Availability	96 percent

*This Scheme is no longer available, therefore, the data will not be updated after November 13, 2020.

FBR Achieves Highest Monthly Growth in December During H1-FY21

FBR's appreciable performance demonstrates that despite the second wave of COVID, government policies have insulated the economy which is showing growing signs of economic revival across the broad-spectrum business activities. According to the provisional information, FBR has collected a net revenue of Rs. 2,204 billion, which is 99.7 percent of its six-monthly target of Rs. 2,210 for the current Fiscal Year from July to December and which showed a growth of 5 percent over Rs. 2,101 billion collected during the same period last year. Income Tax collection for July to December stood at Rs. 816 billion. Similarly, collection of Sales Tax, Federal Excise Duty, Customs Duty remained at Rs. 915 billion, Rs. 127 billion and Rs. 336 billion respectively. For the month of December only, the total collected revenue stood at Rs. 508 billion, which was 97.7 percent of the target of Rs. 520 billion and showed a growth of 8.3 percent against 469 billion collected in last December. There is an increase of Rs. 39 billion in the revenue collection of December 2019. This is the highest monthly growth during Jul-Dec period. However, the share of direct taxes in total revenue declined from 37.5 percent in H1-FY20 to 37.0 percent in H1-FY21.



MARKETS AT A GLANCE

Rates are taken till Friday, January 08, 2020

MONETARY POLICY RATE

7pc | Effective from June 25, 2020

KIBOR (6 MONTHS)

	Bid%	Offer%
STARTING	7.10	7.35
ENDING	7.11	7.36
CHANGE	+0.01	+0.01

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 218.45	PKR 196.64	PKR 159.83
ENDING	PKR 217.50	PKR 195.87	PKR 160.17
CHANGE	-0.95	-0.77	+0.34

PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	44,434
ENDING	45,654
CHANGE	+1220

GOLD RATE

(10 GM, 24K)

STARTING	PKR 98,948
ENDING	PKR 98,557
CHANGE	-391



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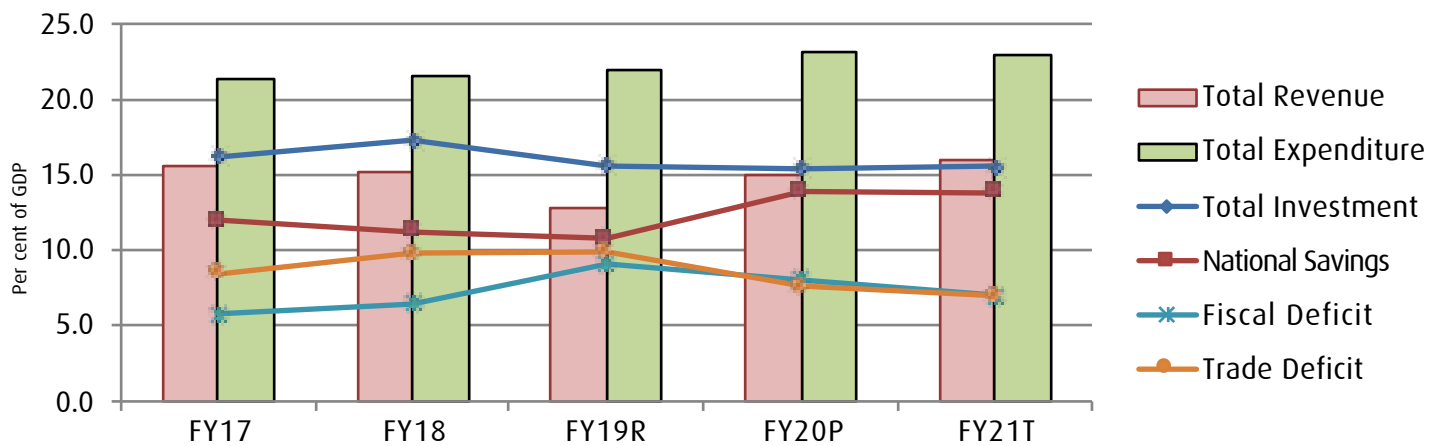
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Pakistan's Major Economic Indicators

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	NOV 2020	DEC 2020
General	4.8	4.7	6.8	10.7	8.3	8.0
Food (Urban)	4.3	3.8	4.6	13.6	13.0	12.6
Non-Food (Urban)	5.1	5.8	8.5	8.3	3.4	3.8

Currency in Circulation as on (Stock data)

Rs. in billion

June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	December 18, 2020	December 25, 2020
3,911.3	4,387.8	4,950.0	6,142.0	6,353.14	6,304.21

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	
	25-Dec-20	18-Dec-20	27-Dec-19	Previous Week	Corresponding Week
Investments	11,490.3	11,399.8	8,801.1	0.79	30.56
Gross Advances	8,305.7	8,242.8	8,157.8	0.76	1.81
Borrowings	3,297.8	3,137.5	2,747.5	5.11	20.03
Deposits and other accounts	17,136.2	16,911.2	14,631.9	1.33	17.12

Inflation Slows Down Amidst Better Supplies of Food Items

The pace of inflation Year-on-Year (YoY) which stabilized around single digits since start of FY21 further came down to 8.0 percent in December 2020 as compared to 8.3 percent in previous month and as high as 12.6 percent in December 2019. Macroeconomic stabilization efforts initiated earlier in FY19, administrative measures (including crackdown on speculative elements), resumption of seasonal supplies of perishables and the COVID-related steep fall in the global crude prices largely helped to rein in inflationary pressures in the economy by the end of FY20. In addition, the tax relief measures in Budget 2020-21 in response to COVID also provided relief in terms of stable prices of various goods.

Better supplies of food items both perishable and non-perishable helped to bring down the YoY food inflation in urban areas to 12.6 percent in December 2020 from 13.0 percent in previous month and 16.7 percent in December 2019. In rural areas, however, the food inflation showed a steeper fall by reaching 13.4 percent in December 2020 from 16.1 percent in previous month and 19.7 percent in December 2019.

SBP Portrays Brighter Prospects for Country's Economic Growth

In its First Quarterly Report on The State of Pakistan's Economy for FY21 released on January 5, 2021 State Bank of Pakistan finds that there were encouraging indications during Q1-FY21 that Pakistan's economy was regaining its

pre-COVID trajectory. The recovery in economic activities was evident across the agriculture, industry and services sectors. Importantly, external and fiscal sector indicators also remained favorable, indicating that the emerging recovery was being achieved while keeping macroeconomic stability intact.

In the external sector, the current account posted a surplus, primarily due to robust workers' remittances, rebound in exports and lower services imports. Continued policy measures under the Pakistan Remittance Initiative and the promotion of formal and digital channels played a major role in driving remittances up. The COVID-related international air travel restrictions also helped divert remittances from informal to formal channels, while dampening the level of Pakistan's services imports at the same time. On the whole, the current account surplus provided a further boost to the country's FX reserves and strengthened the exchange rate during the quarter. The important shock-absorbing quality of the market-determined exchange rate was also evident during the quarter, as the PKR adjusted flexibly in both directions in line with underlying external sector fundamentals and flows.

"A timely and well-calibrated economic policy response to the COVID crisis from the government and the SBP helped to prevent a deeper fallout from the crisis and lay the foundations for economic recovery", the report mentioned.



On the authority of Zayd ibn Khalid al-Juhaniyy (may Allah be pleased with him), who said:

"The Messenger of Allah (may the blessings and peace of Allah be upon him) led the morning prayer for us at al-Hudaybiyah following rainfall during the night. When the Prophet (may the blessings and peace of Allah be upon him) finished, he faced the people and said to them: Do you know what your Lord has said? They said: Allah and his Messenger know best. He said: This morning one of my servants became a believer in Me and one a disbeliever. As for him who said: We have been given rain by virtue of Allah and His mercy, that one is a believer in Me, a disbeliever in the stars*; and as for him who said: We have been given rain by such-and-such a star, that one is a disbeliever in Me, a believer in the stars."

**The pre-Islamic Arabs believed that rain was brought about by the movement of stars. This Hadith draws attention to the fact that whatever be the direct cause of such natural phenomena as rain, it is Allah the Almighty who is the Disposer of all things.*

THE PROPHET MUHAMMAD ﷺ

SECP Allows Digital Accounts Opening for Mutual Fund Investors

As part of its efforts to usher in a new era of smart investments, the Securities and Exchange Commission of Pakistan (SECP), has introduced the digital onboarding mechanism for investors of the Asset Management Companies (AMCs). According to a circular issued by SECP, the Digital Onboarding mechanism offers investors not only a seamless account opening process for investments in mutual funds but also eliminates the requirement of physical presence and submission of physical documents. The AMCs are now allowed to conduct online Customer Verification process for opening of online accounts to ensure investor protection and compliance with all the applicable relevant legal and regulatory framework. Furthermore, the mechanism introduces digital verification for authentication of the investor and original identification documents through virtual meeting application (WhatsApp, Skype, etc.) for online face to face interaction on real time basis. The process eliminates the physical signing of different forms and declarations by the investors. Introduction of Digital Onboarding Mechanism reflects the SECP's continued commitment towards digitization, while ensuring growth of the non-bank financial sector and capital markets. The virtual onboarding of investors in Pakistan is expected to boost innovation and competition in the

mutual fund industry encouraging the use of financial technology and fostering financial inclusion. SECP believes that as the industry transitions towards the digitization of financial services, digital onboarding will soon become the norm in the industry.

Minister of Finance Emphasizes Reviewing Pay, Pension Mechanism

The Federal Minister for Finance and Revenue, Dr. Abdul Hafeez Sheikh emphasized the importance of reviewing the existing pay and pension mechanism, allowances, perks and possibilities of monetization in order to have a financially viable solution for government employees, during a meeting held with Chairperson Pay and Pension Commission Ms. Nargis Sethi, on January 1, 2021. Ms. Sethi briefed the Finance Minister about the working of Pay and Pension Commission to resolve the issue of burgeoning expenditure as pensions on the government exchequer as well as anomalies in pay and pension structure. She apprised the Finance Minister about the working of the sub-committees and reiterated her commitment for streamlining the prevailing system of pay and pension based on principles of fairness and transparency.

INTERNATIONAL SCENARIO

Oil to Hover Above US \$60 in 2021

Brent Crude prices are set to average \$50.67 a barrel in 2021, marginally down from the level at which they traded early on the last trading day of 2020, the monthly Reuters poll of analysts and economists showed. However, Goldman Sachs' analyst sounded more bullish, predicting Brent to average \$65 a barrel next year. The investment bank cited mass vaccinations and the limited increase in production from Opec+ as factors driving the favorable trend. Goldman's commodities chief Jeffrey Currie said oil inventories are also declining due to strengthening demand from Asia, which has added to the general optimism about oil prices next year.

Dr Mamdouh Salameh, international oil economist and professor of Energy Economics at ESCP Europe Business



School, UK, said he would go a step further than Goldman and project that Brent prices could average \$65-\$70 a barrel in 2021.

Grounding his projections on a host of bullish factors, Salameh said in a note that the global economy is projected to grow in 2021 by 5.4 per cent compared with 3.3 per cent in 2019 led by emerging markets, particularly China and India. "Second, both the global oil market fundamentals and the global economy are being invigorated by the start of mass anti-COVID vaccination around the world. The underinvestment in oil and gas will put upward pressure on oil prices. At the height of the pandemic, oil and gas investment estimated at \$131 billion that was slated to be approved in 2020 were shelved, some indefinitely. This could push oil prices to between \$80 and \$100 by 2024," Salameh said. He said the fourth factor is the continued Opec+ production cuts until the end of the first quarter of 2021. Another reason is that "with outstanding debts approaching \$1 trillion and a breakeven price of between \$60 and \$65 a barrel for most drillers, US shale oil could hardly expect to stage a comeback soon."

According to the 39 experts polled by Reuters, the key downside risk for oil prices in 2021 would be the mutating strains of the coronavirus that threaten economic and oil demand recovery with lockdowns and travel restrictions.

UK Parliament Approves Brexit Trade Deal

British lawmakers approved Prime Minister Boris Johnson's post-Brexit trade deal with the European Union on December 30, 2020, as both sides looked to begin a new chapter of relations just days before their divorce becomes a reality.

Britain and the European Union were signing the deal and the British parliament will finalize its implementation, ending over four years of negotiation and safeguarding nearly a \$1 trillion of annual trade. Both sides said it was a chance to begin a new chapter in a relationship forged as Europe rebuilt after World War Two, but which has often seen Britain as a reluctant participant in ever-tighter political and economic integration. Johnson, in a specially convened sitting of parliament, said he hoped to work "hand in glove" with the EU when its interests aligned,

using Britain's new-found sovereignty to reshape the British economy. The deal has been criticized on several fronts since it was agreed on December 24. The opposition Labour Party say it is too thin and does not protect trade in services, fishermen rage that Johnson has sold out their interests and Northern Ireland's status remains subject to much uncertainty.

Britain formally left the EU nearly a year ago and the new partnership agreement will regulate ties from January 1 on everything from trade to transport, energy links and fishing.

Why Saudi Banks are Better Positioned in 2021 Compared to GCC Peers

Saudi banks are entering the New Year from a position of advantage with higher loan growth and relatively low impairments reported in the first three quarters of 2020. Despite the challenging operating environment posed by COVID-19 and drastic fall in oil prices, 2020 was not such a bad year for the Saudi Banks, according to Bank of America Merrill Lynch (BoAML) analysts.

BoAML said the Saudi banks are entering 2021 from a position of strength, with tier one capital ratios above 17 per cent on average, non-performing loan (NPL) coverage in excess of 140 percent and healthy liquidity measures. Additionally, a stronger economic rebound in 2021 with the IMF projecting 3.6 percent GDP growth above the GCC average of less than 2 percent, loan growth is expected to pick up further underpinned by continued strong growth in the mortgage market.

"We see loan growth reaching 9 per cent in 2021, with upside risks. Margin decline is set to abate, with the fourth quarter 2020 likely representing the bottom in net interest margins for the banks," BoAML said in a note.

Analysts said the extension of Central bank support measures should also be supportive for margins given the cost of funding advantages provided. Additionally, cost of risk is set to ease in to 2021 and scope for growth in non-interest income streams looks bright.



MANAGEMENT VIEWS

Do Not Follow Your Passion

When it comes to career advice, the adage to "follow your passion" is not all that useful and it can be misleading. If you are looking to find a career that will matter to you, do not just think about the things that come naturally to you, the things you love to do, or the things you have always excelled at. Instead, consider the activities that you return to time and time again, despite the fact that they are hard for you, or maybe even painful. Think of this approach as "following your blisters." These probably are not the activities you are the best at (yet), they are the ones that challenge you, frustrate you and attract you all at once. Maybe it is writing. Maybe it is data analysis. Maybe it is managing people. Whatever it is, if you follow your blisters, you will never be bored and you will always be learning. Eventually, you will earn the calluses of an expert.

(This tip is adapted from *What You Should Follow Instead of Your Passion*, by Dan Cable. – HBR)

Call Out Gender Inequity on Your Team

When it comes to gender equity, leaders must manage team behavior in the same way they manage safety, costs and productivity. Unfortunately, too many people in power ignore or downplay the impact of factors that can create an inequitable work environment. If you are a leader, it is imperative that you call out inappropriate or exclusionary behavior, even when it happens in informal interactions. Give employees who exhibit those behaviors direct, one-on-one feedback outlining how their comments or actions marginalized their colleagues and impacted the team as a whole. And use these experiences as opportunities for collective learning: Be transparent with your team about what happened and what will change as a result. As a manager, enforcing gender equity is part of your day-to-day job and you should always be looking for opportunities to push your team closer to its ideals.

(This tip is adapted from *Leaders, Stop Denying the Gender Inequity in Your Organization*, by Michelle King. – HBR.)

"The hearts become tired as the bodies become tired. You should therefore search for beautiful sayings for them (to enjoy by way of refreshment)."

HAZRAT ALI 

Just Breathe to Reduce Stress

If you are managing higher levels of stress these days, there is a tool we all have immediate access to: breathing. It might sound simple, but when done properly, breathing can make the difference between panic and resilience. Research shows that different emotions are associated with different forms of breathing. For example, when you feel anxious or angry, your breathing becomes irregular, short and fast. When you feel joy or relaxation, your breathing will be regular, deep and slow. And believe it or not, when you follow breathing patterns associated with different emotions, you begin to feel those corresponding emotions. So next time you are feeling stress start to bubble up, try changing the ratio of your inhale to exhale. When you inhale, your heart rate speeds up. When you exhale, it slows down. Take a few minutes and breathe in for a count of four and out for a count of eight, this will calm your nervous system and keep stress at bay. By tweaking your breathing, you will start to feel a bit better.

(This tip is adapted from *Research: Why Breathing Is So Effective at Reducing Stress*, by Emma Seppälä et al. – HBR)

4 Strategies to Improve Your Efficiency

It can feel like 24 hours is not enough time in the day and all the productivity hacks in the world will not change that. Here are four proven strategies to help you make the most of your limited time. First, batch your meetings. It is hard to get into flow when you know you are going to be interrupted every hour. By knocking out all your meetings at once, you will clear out some undisturbed time to work on deep-focus tasks. Second, do your best to learn some keyboard shortcuts that can reduce how much you rely on



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your computer's mouse and trackpad. This may seem like a small thing, but over time, it makes a huge difference. Third, leverage your environment to change your self-destructive habits. If you are losing time because you are distracted by your phone throughout the day, leave it in another room. If emails are derailing your workflow, pause notifications. Finally, read your work out loud. No matter what your job is, chances are you write at least one email per day. Listening to the words you put down on paper will speed up and clarify your writing process.

(This tip is adapted from *What Super Productive People Do Differently*, by Amantha Imber. –HBR)

Take Meaningful Action Against Racism

If you are a business leader in the U.S., no matter your ethnic or political identity, you have an opportunity to speak up and take meaningful action against racism right now. Of course, no one leader's language can fix the deep-seated, systemic racial injustice in America. But the right words can be a salve for the widespread pain that so many are experiencing and it can set the conditions for an action-oriented culture. If you are a leader who is not Black, do not approach statements or conversations about racism with a defensive mindset, do not make sweeping generalizations about people's feelings, words, or actions, and, crucially, do not rely on your Black and brown colleagues to educate you on the news or social justice initiatives. Acknowledge what you do not know, commit to listening and learning, and pledge to use your position of power to effect change. Do the research to understand current events, using data from reliable sources. Give your Black and brown employees the space to be angry, afraid, disenchanted, or even disengaged from work. Seek out support and reading materials from your human resources team or office of diversity and inclusion. Create space for continued reflection, discussion and vulnerability by making it clear that you care and are available. Finally, take meaningful action: Make a strong public statement, donate to Black-owned businesses and social justice causes in your community, or form a committee on racial

justice and reform, there are countless ways to help build a better future. Find a few that align with your organization and make a commitment to them. Racism is not just Black people's problem and inaction is a tacit endorsement of the status quo.

(This tip is adapted from *U.S. Businesses Must Take Meaningful Action Against Racism*, by Laura Morgan Roberts and Ella F. Washington. – HBR)

SNIPS

The Relentless Rally of Stock Markets

The world stock markets are now worth a combined \$100 trillion for the first time, reports Bloomberg.

Wasted Food

About one-third of all food produced is lost or wasted. This amounts to 1.3 billion tonnes a year, estimated by the Food and Agriculture Organization.

Editor: Muhammad Mazherul Haq | **Deputy Editor:** Shahla Naqvi | **Designed by:** M. Jahangir Ishaq | **Email:** Publications@ibp.org.pk
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DONATE FOR THE PRIME MINISTER'S COVID-19 PANDEMIC RELIEF FUND



IBP TRAININGS JANUARY 2021

**12 JANUARY
TUESDAY**

2PM - 6PM

Agriculture Financing: Risks and Opportunities

FACILITATOR: Kamran Akram Bakhshi

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

ONLINE
TRAINING

**14 JANUARY
THURSDAY**

9AM - 1PM

Compliance and Regulatory Instructions on Foreign Exchange

FACILITATOR: Ejaz Ahmed Qadri

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

ONLINE
TRAINING

**16 JANUARY
SATURDAY**

2PM - 6PM

Working Model of Islamic Accounting

FACILITATOR: Asim Hameed

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

ONLINE
TRAINING

**16 JANUARY
SATURDAY**

2PM - 6PM

Digital Transformation in Banking

FACILITATOR: Ahmed Hassan Gardezi

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

ONLINE
TRAINING

**19 JANUARY
TUESDAY**

9AM - 1PM

Developing Business Dashboard Using MS Excel

FACILITATOR: Rahim Zulfiqar Ali

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

ONLINE
TRAINING