



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan

Page No. 01

Volume 12, Issue No. 32 | Date: August 11, 2017

## PAKISTAN COMPENDIUM

### BANKING SCENARIO

#### Deposits Folder

According to the weekly statement of position of all scheduled banks for the week ended July 21, deposits and other accounts of all scheduled banks stood at Rs. 11,761.50 bn after a 0.65 pc increase over the preceding week's figure of Rs. 11,685.139 bn. Compared with last year's corresponding figure of Rs. 10,193.372 bn, the current week's figure was higher by 15.38 pc.

#### Russian Consortium to Build Refinery

A Russian oil and gas consortium, Inter Rao and Himmash Apparat, has agreed to set up a medium-sized refinery in Kohat district of Khyber Pakhtunkhwa. A memorandum of understanding has already been signed between the Russian firms and the KP Oil and Gas Company (KPOGCL), the Russian investors have to seek Moscow's approval to enter the energy market of Pakistan. Recently, a Russian delegation held a meeting with KPOGCL Chief Executive Officer to discuss a way forward for the project. KPOGCL is playing an active role as facilitator, de-briefing the investors on financial and technical aspects of the project. Letters of intent have already been issued by Russian investors through their consortium to the KP government and they are keen to take this project to the next phase.

#### Poultry Sector Vies for Global Halal Pie

Owing to a policy emphasis on import diversification, Pakistan's export base which is mostly based on textiles and clothing, have historically contributed between 55 pc-60 pc of total overseas shipments. If leather/products and rice are added to the equation, the three commodities together constitute three quarters of the country's total export sales. Pakistan needs to augment its exports which calls for exploiting the potential of non-conventional sectors like poultry meat and value added products for boosting the nation's exports which are gaining momentum in Karachi and Punjab. It is imperative that the government starts broadening the exportable products base and developing strategies to increase exports of unconventional items. Poultry can prove to be major foreign exchange earner if proper facilities and incentives are given to this industry for a level playing field in the international market. The Poultry Association spokesman based his argument on the fact that the global halal food trade now amounts to \$300 bn, and is growing at an average rate of about 5 pc annually. The halal trade

### MARKETS AT A GLANCE

Rates are taken till Friday 3:00 pm

#### KIBOR (6 months)

	Bid%	offer%
BEGINNING	5.90	6.15
ENDING	5.91	6.16
CHANGE	+0.01	+0.01

#### Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
BEGINNING	PKR 139.75	PKR 125.75	PKR 106.80
ENDING	PKR 138.50	PKR 124.60	PKR 106.70
CHANGE	-1.25	-1.15	-0.1

#### Pakistan Stock Exchange

##### 100 Index

BEGINNING	46,877
ENDING	45,360
CHANGE	-1517

#### Gold Rate

##### (10 gm)

BEGINNING	PKR 43,628
ENDING	PKR 43,628
CHANGE	0



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Page No. 02

Volume 12, Issue No. 32 | Date: August 11, 2017

is expected to double in the next few years. The Middle East, Central Asian states and Russia are markets of our interest because of close proximity and higher poultry imports according to K&N's CEO Khalil Sattar. These countries imported chicken meat to the tune of \$ 5.79 bn during 2013, and their imports are growing at a rate of around 8 pc to 10 pc a year.

## **\$10 bn Foreign Investment in Petroleum Sector**

The petroleum sector attracted over \$10 billion foreign investment despite low oil price scenario in international market during the last four years. Besides, world's major players are showing interest to invest in LNG sector of Pakistan after seeing immense business potential of the commodity. International companies were aspiring to set up their own terminals and develop transmission networks to supply the commodity to consumers. The officials said PGNiG, a Polish company, has planned to step up its exploration and production (E&P) activities and take the business volume to Rs. 100 bn per year. The company has the intention to take its production to \$100 million per year in the coming days. Besides, the company is considering to set up its LNG trading office in Pakistan. Currently 600 mn cubic feet per day (mmcf) LNG was being imported from Qatar, which greatly helped in meeting the country's energy requirements as all gas-based power generation plants are now functioning fully; 1,200 CNG stations have restarted their operations and industrial and fertilizer sectors are getting uninterrupted supply.

## **Buying Orders Push Cotton Trading Up**

There was brisk activity at the cotton market recently as steady flow of buying orders kept pouring from needy spinners. The improved flow of phutti (seed cotton) coupled with higher availability of quality lint helped generate higher trading activity. Strong demand from spinners will continue to persist in the coming days, pushing up phutti prices – particularly in Punjab where picking has gradually gained momentum. Most spinners are running out of cotton as no carryover stocks from previous crop are there, while a delay in phutti picking caused by recent rains has affected the supply.

## **Non-banks to Operate ATMs**

Non-bank entities can now own and operate automated teller machines (ATMs) and charge their own service fee on offsite locations, the State Bank of Pakistan (SBP) announced recently. The potential of ATM growth lies at offsite locations, which are still an untapped area, the SBP said. Although several banks have installed ATMs at offsite locations, operation and maintenance of these machines are a big challenge, it added. Machines that are owned and operated by non-bank entities are called White Label ATMs. These entities are usually referred to as White Label ATM Operators (WLAOs). The SBP said White Label ATMs can catalyze the growth of offsite ATMs to bridge the gap at a faster pace. The WLAO operates its ATMs in the Off-Us mode and becomes a member of an ATM Switch (Payment Systems Operator) for routing and settlement of transactions while the service fee and place of installation are decided by the WLAO itself, said the SBP. In order to encourage the growth of off-site machines through White Label ATMs, the SBP has developed Draft White Label ATMs Guidelines to provide a regulatory direction to prospective investors/service-providers that intend to apply for in-principle approval under the Rules for Payment Systems Operators and Payment Service-Providers.

## **Pakistani Farmers' New Irrigation Tools**

It is still beyond farmer Mohammad Ashraf's comprehension that people in Islamabad can predict that it will rain in the next two days in his village. He is also astonished that, based on this prediction, they can tell him how much he should water his rice and sugarcane plantations. He marvels at this science of being able to predict something that is unknown. Every Friday, he reads the simple Urdu messages sent to his phone, saying things like: "Dear farmer friend, this is to inform you that between 21 and 28 July 2017 in your area (Bahawalnagar) the crops used this much water (cotton 1.6 inch, sugarcane 1.7 inch). Next week, rain is predicted in some parts of your region. Therefore please water your crops accordingly." The text messages are sent by the Pakistan Council of Research in Water Resources (PCRWR), a government agency that carries out water research. Ashraf would be even more flabbergasted if he knew the scientists get this information from space.



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Page No. 03

Volume 12, Issue No. 32 | Date: August 11, 2017

## Infrastructure Loans on Rise

Borrowing for infrastructure increased significantly in 2016, according to a recent report by the State Bank of Pakistan (SBP). The SBP classifies loans taken by the construction sector in two categories: building and infrastructure. Loans for building, however, registered a decline over the same period, the report showed. It demonstrates that banks are benefitting from increased infrastructure construction under the China-Pakistan Economic Corridor (CPEC). Loans for construction increased from Rs. 64.3 bn at the end of June 2015 to Rs. 85 bn in December 2015. The amount stood at Rs. 106.7 bn at the end of 2016, showing an increase of 25 pc over the year.

## Homage Pushes for Solar Energy

The severe electricity shortage in the country has increased the demand for solar panels in Pakistan. Homage recently launched their new solar power inverter system, marking the company's foray into the solar panel product category. The product comprises an inverter, solar panels and a chargeable gel battery. Explaining the reasons behind the launch, Director Marketing of Homage said recently that Pakistan's ongoing energy crisis and rising electricity costs are not going to end anytime soon. Therefore, it is anticipated that there will be an increased demand for sustainable power-backup systems, especially solar systems. In view of most areas in Pakistan receive an average of six to eight hours of sunlight most of the year, solar panels are well-suited to our local weather conditions. According to industry reports, the current market demand for solar panels has grown from 350 megawatts (MW) per year in 2013 to approximately 1500 MW this year and this trend is expected to continue in the forthcoming years.

## Cement Dispatches Grow 45 pc

The current fiscal year started on a positive note for the cement sector, which recorded a 45 pc jump in dispatches in July, 2017. Local sales and exports grew 55pc and 2.3pc, respectively. Capacity utilization in July stood at 86 pc. Local dispatches from north-based units were 2.42 mn tonnes while their export dispatches were 0.33m tonnes in July.

Dispatches of south-based mills increased from 0.35 mn tonnes in July 2016 to 0.48 mn tonnes last month. Exports to Afghanistan rose 40 pc from 0.15 mn tonnes in July 2016 to 0.21 mn tonnes last month. The spokesman for the All Pakistan Cement Manufacturers Association (APCMA) said the industry established a record in July by dispatching 3.38 mn tonnes of cement. The sector never posted dispatches of more than 3 mn tonnes in July in the past. He said the industry operates under a stiff regulatory environment, adding that it has upgraded its technology to face new challenges.

## Income Defined in NBFC Law

The Securities and Exchange Commission of Pakistan (SECP) has amended the Non-Banking Finance Companies and Notified Entities Regulations 2008, adding the meaning of income in the law. The amendment includes insertion of a new clause defining the 'Element of Income' — the difference between net asset value on the issuance date and the net asset value at the beginning of relevant accounting period — a definition of income which was absent in Non-Banking Finance Companies NBFC units' regulations earlier. Besides a new clause titled 'Allocation of net income for the year' has been included elaborating income already paid on units redeemed, and accounting income available for distribution, with further details about relating to Capital Gains.

## Pakistan's Real Sector Overview

Continuing on its growth momentum, Pakistan's real GDP grew by 5.3 pc in FY17, compared to 4.5 pc last year. This was the highest growth achieved over the last decade. A sharp recovery in agriculture sector, healthy performance by services, and an uptick in the large scale manufacturing output contributed towards this encouraging performance. The key factors enabling this performance include improved supply of energy, increased developmental spending, supportive monetary policy, and a better law and order situation. The agriculture sector was able to achieve its targeted growth rate of 3.5 pc during FY17, with a broad-based improvement in the production of important crops. Price subsidy on fertilizer, and affordable access to



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Page No. 04

Volume 12, Issue No. 32 | Date: August 11, 2017

credit facilities, resulted in the important crops segment posting a growth of 4.1 pc against a contraction of 5.5 pc experienced last year. The services sector – benefitting from a recovery in the agriculture sector, an increase in manufacturing, and a rise in trade activities – contributed around two thirds of the growth witnessed during FY17, with wholesale and retail trade growth rising from 4.3 pc last year to 6.8 pc in FY17. Finance and insurance posted a recovery on account of healthy deposit and advances of the banking sector. (*SBP's 3rd Quarterly Report : 2016-2017*)

## KALEIDOSCOPE

### World's Longest Bridge

The world's longest bridge is the Danyang-Kunshan Grand Bridge in China, part of the Beijing-Shanghai High-Speed Railway. The bridge, which opened in June 2011, spans 102.4 miles (165 km).

### World's Busiest Airport

The Airports Council International (ACI) recently released its list of the busiest airports in the world. Once again, Hartsfield-Jackson Atlanta International Airport (ATL) took the top spot, with more than 104 mn passengers in 2016. According to the ACI, this represents an increase in traffic of over 2.6% over 2015.

### Saba Island Airport

This airport is located on the Caribbean island of Saba and is known for having the shortest runway in the world (only 0.2 miles long). For this reason, large aircraft cannot operate flights to this destination. Windward Islands Airways offers daily flights to and from St. Martin; it is the only airline currently servicing this airport.

## INTERNATIONAL ARENA

### Brexit Inflation Pushing to Cheaper Goods

British firms are keeping a lid on pay and automating more production while some shoppers, faced with rising prices, are switching to cheaper products, the Bank of England said recently. The findings came in a report from around the country that showed Brexit is hurting households, mainly through the weaker pound. Businesses serving British consumers are suffering compared with export-focused manufacturers, as the weaker exchange rate and higher inflation following last year's vote to leave the European Union feeds through the economy. Last week, BoE Governor Mark Carney said Britain's economy was suffering from uncertainty and higher prices caused by the referendum decision in June 2016, and the central bank cut its forecasts for future growth and wages.

### Chinese Ride-hailing Firm to Invest in Careem

DiDi Chuxing, China's largest ride-hailing firm, has invested in online taxi service Careem in a new partnership deal that marks Didi's latest international expansion against rival Uber. DiDi is seeking to turn up the heat on ride-sharing pioneer Uber via a string of partnerships with regional players in Southeast Asia, Europe, Africa and now the Middle East. It has previously done similar deals in Latin America as well as with Uber's US rival Lyft. DiDi said recently it would invest in Careem to strengthen its market position across the region. The two companies said they would cooperate on smart transportation technology, product development and operations.

### China Helps Malaysia in OBOR Project

China and Malaysia broke ground on a \$13 bn rail project linking peninsular Malaysia's east and west, the largest such project in the country and a major part of Beijing's One Belt and One Road (OBOR) infrastructure push. The planned 688 km (430 mile) East Coast Rail Link will connect the South China Sea, large parts of which are claimed by China, at the Thai border in the east with the strategic



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Page No. 05

Volume 12, Issue No. 32 | Date: August 11, 2017

shipping routes of the Straits of Malacca in the west. It is among the most prominent projects in China's Belt and Road Initiative, which aims to build a modern-day 'Silk Road', connecting the world's second-largest economy by land corridors to Southeast Asia, Pakistan & Central Asia and maritime routes, opening up trade with the Middle East and Europe.

## China focused on Africa

In 2000, Chinese companies only made two investments in Africa's manufacturing sector, according to the Chinese Ministry of Commerce. Today, the country is making more than 150 investments per year.

## MANAGEMENT & INFOTECH CORNER

### To Improve Your Focus

Although being responsive to customers is important, constantly checking and sending emails can hurt your productivity. If it is not possible to divert these kinds of emails to a customer service rep, set up a realistic response window for yourself. Try replying to emails once every four hours or at the end of the business day. If you are worried that your clients will feel ignored, set up an auto-response telling them when you will be checking email and to instruct them to call if they have an urgent issue. That way, you can use your largely uninterrupted workday to focus on getting projects done. (Adapted from *Your Team's Time Management Problem Might Be a Focus Problem* by Maura Thomas. *Harvard Business Review*)

### Challenge a Negative Performance Review

Before you tell your boss that his assessment missed the mark, bite your tongue. Instead, say something like: "This assessment comes as a surprise. I did like to think about it and perhaps have another conversation before this becomes official. May I get back to you in a day or two?" That lets your boss know that you're concerned about the accuracy of the evaluation without having to achieve instant resolution. Then sleep on it. Think about your performance over the past year to consider whether your boss's assessment might be on target — or at least not so far off that it's worth making a major fuss over. (Adapted from *What to Do When You Think Your Performance Review Is Wrong*, by Dick Grote. *Harvard Business Review*)

### The Big 5 are All Tech Firms

Based on the value of their stock in early July, the world's five most valuable companies are Apple, Alphabet, Microsoft, Amazon.com and Facebook.

### A Widening Productivity Gap

Recent research suggests that when companies around the world are ranked by productivity, the GAP between those in the top 10 pc and those in the bottom 10 pc rose by about 14 pc between 2001 and 2012.

### Institutional investors hold large stocks

Institutional investors — groups like pension funds and insurance companies — hold about 70 pc of shares in American companies today.

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