



Economic Letter

a weekly publication of The Institute of Bankers Pakistan*

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Volume 14, Issue No. 33 | Date: August 16, 2019

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

PAKISTAN OVERVIEW

Economy Heading in Right Direction: SBP Governor

The economy is facing with a number of problems and uncertainty but the situation is changing, said State Bank of Pakistan (SBP) Governor Reza Baqir, while addressing the flag hoisting ceremony held at the State Bank Building to celebrate the country's 73rd Independence Day. He admitted that the economy is weak, unemployment is rising and inflation is moving upwards but the country is heading in the right direction. "I assure you that we are in right direction and if we continue to move in this direction with commitment, we will surely achieve the prosperity, development and the targets set by the government," the governor said.

Govt Lifts All Bank Liquidity

With banks parking their money in risk-free government securities in huge sums, private sector has found no space to borrow from financial institutions since the beginning of FY20. The State Bank of Pakistan's latest data shows the government borrowed Rs. 1.367 tr from July 1 to Aug 2 (33 days) as against net debt retirement of Rs. 20.2 bn during the same period last fiscal year.

Law to Protect Ownership Rights of Indigenous Products

After a delay of more than 18 years, the government has finally decided to table Geographical Indication (GI) Bill in the National Assembly to protect ownership rights of goods produced in the country. Due to the absence of GI legislation, international brands continue selling Pakistan-origin goods such as Paul Smith's Peshawari Chappal, Moroccan Ajrak and California Basmati, depriving the country to get premium on its GIs in international market.

FBR Seeks to Recover Lifetime Tax

Federal Board of Revenue (FBR) appears to be taking advantage of lifetime token tax collection by the provinces on small cars by seeking to recover lifetime income tax from these lower middle class citizens. This will mean that an owner of up to 1000cc car, who is paying Rs. 1,800 per year, including Rs. 800 as income tax, will now be required to pay Rs. 20,000, including Rs. 10,000 as income tax in case of filer. The motorists will bear additional 'financial burden' under the heads of professional tax, which is Rs. 1,000 on lifetime token.

Major Changes in Govt Financial Management

The government has disbanded the Financial Advisers' Organization (FAO), giving the heads of federal ministries and divisions full autonomy to independently utilize development and non-development funds of all departments and projects under their control. The decision has been made under a new law "Public Finance Management Act, 2019" passed by the parliament on the request of the finance ministry as part of its agreement with the International Monetary Fund.

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	13.83	14.08
ENDING	13.83	14.08
CHANGE	0	0

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 190.00	PKR 175.00	PKR 157.80
ENDING	PKR 191.00	PKR 175.50	PKR 158.50
CHANGE	+1.00	+0.5	+0.7

PAKISTAN STOCK EXCHANGE

100 Index

STARTING	29,429
ENDING	28,764
CHANGE	-665

GOLD RATE

(10 gm)

STARTING	PKR 74,417
ENDING	PKR 74,588
CHANGE	+171



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Exports to EU Stagnate Despite GSP+ Status

Pakistan's exports to the European Union have stagnated in the last four years despite waiver of duties on several products under the Generalized System of Preferences Plus (GSP+). The GSP+ facility, implemented from Jan 1, 2014, helped promote exports from Pakistan to the EU by almost 21pc in the first year. However, "no tangible growth was recorded in export proceeds to EU in the following four years", a senior official of the commerce ministry said. Before the GSP+ scheme, Pakistan's exports to 28-member EU stood at €4.54 bn in 2013, which jumped to €5.51 bn in 2014. In the second year of the GSP+ scheme, exports further jumped by 10pc to €6.09 bn. However, the exports fetched €6.69 bn in 2017 and €6.88 bn in 2018. On the other hand, Pakistan's imports from EU, which were at €3.84 bn in 2013, have also increased in tandem with exports during the last four years to reach €5.66 bn in 2018. In the post-GSP+ period, the country's imports from the EU amounted to €6.15 bn in 2017. *Note: The Generalized System of Preferences (GSP) is a trade program designed to promote economic growth in the developing world by providing preferential duty-free entry for products from 129 designated beneficiary countries. Pakistan acquired the GSP plus status from the European Union, granting member states duty-free access to 96pc of Pakistani exports to the EU.*

8pc Amnesty Declarants Avail Pay-later Option

Around 8pc of the total declarants have opted for pay-later option under the Tax Amnesty Scheme, 2019. The total tax collections under these declarations are estimated to be around Rs. 10.9 bn. The Federal Board of Revenue (FBR) is in the process of analyzing the data to ascertain outcome of the scheme in terms of assets declarations and revenue collection. The pay-later option is only available to those individuals who have declared their assets before the June 30 deadline.

Pakistan, Afghanistan Ready for PTA

PM's Adviser on Commerce Abdul Razzak Dawood has said that Pakistan and Afghanistan have agreed to start the process of Preferential Trade Agreement (PTA) to boost bilateral trade to an unprecedented level. He said at the first instances both sides will share their initial list of tariff lines next month, which will be followed by meetings of

technical committees, said a press release issued by the Ministry of Commerce.

Modaraba-based Financing for SMEs

The State Bank has decided to introduce a Modaraba-based Islamic Refinance Scheme for working capital financing of small and low-end medium enterprises. The central bank recently said that it will make Modaraba investment in general pool of Participating Islamic Financial Institutions (PIFIs) under the scheme. The financing will be initially available for information technology, furniture, gems and jewelry, leather industry, surgical goods, dates processing, fruits, vegetables and food processing and packaging, and printing and packaging. Small enterprises (SEs) for SME financing are eligible under the scheme while medium enterprises (MEs) with annual sales turnover of up to Rs. 300 mn can also avail the scheme. Maximum financing limit for MEs is Rs. 50 mn, with a maximum financing tenure of one year.

INTERNATIONAL VISTA

July, the Hottest Month in the World

July 2019 temperatures were the hottest ever recorded globally, the US National Oceanic and Atmospheric Administration (NOAA) said recently, while satellite data showed polar ice shrank to its lowest levels. According to the NOAA, the average global temperature for the month was 0.95 degrees Celsius above the 20th century average of 15.8 degrees Celsius, making it the hottest July in its records, which go back to 1880. Much of the planet sweltered in unprecedented heat in July, as temperatures soared to new heights in the hottest month ever recorded. The record warmth also shrank Arctic and Antarctic sea ice to historic lows, the agency said.

Bitcoin a Speculative Bet, Market Players Say

Bitcoin's recent gains as stocks plummeted on US-China trade tensions reflect not so much its safe-haven credentials but its potential for quick gains, cryptocurrency and foreign exchange, traders said recently. The biggest coin jumped over 7pc as US stocks slumped 3pc. Safe haven assets from



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the Japanese Yen to gold to government bonds, expected to hold or gain value amid turbulent markets, also rallied as investors fretted over the impact of the trade war on the world economy.

Hajj Economy in Saudi Arabia

Haj and Umrah pilgrimage add an estimated \$12 bn a year to Saudi's GDP. That is about 20pc of the kingdom's non-oil GDP and 7pc of total GDP. Haj alone contributes about \$5-6 bn. Experts believe that revenue from pilgrimage will top \$150 bn by 2022.

Upsurge in Chinese Crypto Demand

Trade tensions between the United States and China and a weakening Yuan are boosting demand for cryptocurrencies among Chinese investors, market players from Asia to New York said. Exchanges, researchers and brokers have seen an uptick in activity at Crypto trading venues popular with Chinese. They said over-the-counter (OTC) brokers, which act as middlemen for buyers and sellers, have seen much of the activity.

Singapore Reduces Growth Forecast

Singapore slashed its full-year economic growth forecast recently as global conditions were seen worsening and data confirmed the slowest growth rate in a decade amid mounting fears of recession in the city-state. The government cut its forecast range for gross domestic product in Singapore, often seen as a bellwether for global growth because international trade dwarfs its domestic economy to zero to 1pc from its previous 1.5pc-2.5pc projection.

25pc of World Population Facing Water Stress

Nearly a quarter of the world's population lives in 17 countries facing extremely high water stress, close to 'day zero' conditions when the taps run dry, according to a report released recently. The Aqueduct Water Risk Atlas of World Resources Institute (WRI) ranked water stress, drought risk and riverine flood risk using a peer-reviewed methodology. Agriculture, industry and municipalities are drinking up

80pc of available surface and groundwater in an average year in the 17 worst affected countries, the WRI said. When demand rivals supply, even small dry shocks which are set to increase due to climate change can produce dire consequences such as the recent crises in Cape Town, Sao Paulo and Chennai. Qatar, Israel, Lebanon, Iran, Jordan, Libya, Kuwait, Saudi Arabia, Eritrea, the UAE, San Marino, Bahrain, India, Pakistan, Turkmenistan, Oman and Botswana made up the top 17. Water stress is the biggest crisis no one is talking about. Its consequences are in plain sight in the form of food insecurity, conflict and migration and financial instability.

US Delays Tariffs on Some Chinese Goods

The United States is delaying tariffs on Chinese-made cellphones, laptop computers and other items and removing other Chinese imports from its target list altogether in a move that triggered a rally on Wall Street. The Office of the US Trade Representative said that it is still planning to go ahead with 10pc tariffs on about \$300 bn in Chinese imports, extending the import taxes on just about everything China ships to the United States in a dispute over Beijing's aggressive trade policies. Most of the levies are scheduled to kick in Sept. 1. But under pressure from retailers and other businesses, the agency said it would delay the tariffs to December 15 on some goods, including cellphones, laptop computers, video game consoles, some toys, computer monitors, shoes and clothing.

Oil Prices Fall on Demand Concerns

Oil prices fell on August 14, on lingering concerns over global demand and rising US production, though expectations for major producers to further curtail output offered support. Brent crude futures LCOc1 were down 20 cents or 0.3pc from the previous settlement at \$58.29 a barrel. The international benchmark has lost over 20pc since hitting its 2019 high in April, 2019. A deepening trade war between the United States and China, the world's two largest economies and energy consumers, has weighed heavily on oil prices in recent months.

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