



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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PAKISTAN COMPENDIUM

BANKING SCENARIO

Deposits Folder

According to the weekly statement of position of all scheduled banks for the week ended July 28, deposits and other accounts of all scheduled banks stood at Rs. 11,701.701 bn after a 0.51 pc decrease over the preceding week's figure of Rs. 11,761.500 bn. Compared with last year's corresponding figure of Rs. 10,304.705 bn, the current week's figure was higher by 13.55 pc.

Credit Portfolio

Gross advances of all scheduled banks stood at Rs. 6,027.582 bn, higher by 0.006 pc over the preceding week's figure of Rs. 6,027.542 bn. Compared with last year's corresponding figure of Rs. 5,116.122 bn, current week's figure is higher by 17.81 pc.

China Plans Petrochemical Complex Near Karachi

A Chinese proposal to set up a refinery along with a downstream petrochemical complex near Karachi is advancing steadily as requests for 500-1,000 acres has been submitted to the provincial governments of Sindh and Balochistan. The estimated cost of the project is about \$4 bn. This was disclosed by Federation of Pakistan Chambers of Commerce and Industry (FPCCI) President Zubair M. Tufail after a meeting with the visiting Chinese delegation, led by Ms Li-Jial, Director Tianchen Engineering Corporation (TCC), at the Federation House recently. They agreed in principle to establish and exchange investment missions to further enhance trade relations between the two countries. The Chinese asked for land in Karachi since they found rents in Gwadar Free Zone to be too expensive. Port Qasim does not have enough space for a project of this size, so the Chinese have asked for land a few kilometers away or in the Hub area, which falls in Balochistan. The complex envisions a number of jetties, a refinery with 10 mn tonnes per year capacity, as well as downstream processing facilities for naphtha and its component chemicals. Currently Pakistan is importing \$2bn worth of these chemicals from the Middle East, the complex could help reduce Pakistan's external deficit. Building of the complex will take four to five years.

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 months)

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

Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
BEGINNING	PKR 138.50	PKR 124.60	PKR 106.70
ENDING	PKR 136.50	PKR 123.75	PKR 106.50
CHANGE	-2	-0.85	-0.2

Pakistan Stock Exchange

	100 Index
BEGINNING	45,360
ENDING	43,078
CHANGE	-2282

Gold Rate

	(10 gm)
BEGINNING	PKR 43,628
ENDING	PKR 43,628
CHANGE	0



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Foreign Investment Jumps by 162 pc

Foreign direct investment (FDI) jumped 162 pc to \$222.6 mn in July on a year-on-year basis, the State Bank of Pakistan (SBP) reported recently. FDI continued showing the upward trend that began in the second half of the preceding fiscal year. It grew 4.6 pc in 2016-17. Pakistan received \$2.4 bn in 2016-17, highest since the present government came into power four years ago. FDI was \$1.45 bn in 2012-13. Growth in FDI is encouraging, although the main contributor to net inflows has been China, which is investing heavily under the China-Pakistan Economic Corridor (CPEC). The highest inflow in July was from Malaysia, which invested \$91.6 mn. It was followed by China that invested \$72.7 mn. Other important sources of FDI in July were the United Arab Emirates and Japan, which contributed \$16.2 mn and \$12.2 mn, respectively.

CPEC Highlights

CPEC Project to take Formative Shape by 2020

The China-Pakistan Economic Corridor project is likely to take initial shape by 2020 and start boosting economic growth in both countries, suggests the multibillion dollars initiative's draft long-term plan. The federal government had recently shared the draft LTP with the provinces for feedback. The LTP will remain operative until 2030 after its approval by both Pakistan and China. The draft LTP, says the CPEC, covers China's Xinjiang Uyghur Autonomous Region and whole territory of Pakistan and its coverage is divided into core and radiation zones. By one belt, it means the belt area composed of core zone of CPEC including Kashgar, Tumshuq city, Atushi city and Atko county in Kizilsu Kirghiz autonomous prefecture of Xinjiang as well as Islamabad, parts of Punjab, Sindh, Khyber Pakhtunkhwa, Balochistan, Azad Jammu and Kashmir, and Gilgit-Baltistan.

Service Exports Grew 1.7 pc in 2016-17

The country's service exports recorded a growth of 1.76 pc year-on-year to \$ 5.55 bn in 2016-17, the Pakistan Bureau of Statistics said on Tuesday. On a monthly basis, the exports of services recorded a growth of 5.4 pc in June at \$ 443.29 mn as against \$ 420.25m in the corresponding

month last year. In 2015-16, the service exports dropped by 7.14 pc to \$5.46 bn. The services sector has emerged as the main driver of economic growth. Its share has increased from 56 pc in 2005-06 to 57.7 pc of GDP in 2014-15. Its major sub-sectors are finance and insurance, transport and storage, wholesale and retail trade, public administration and defence. Pakistan has opened up its market to foreign service-providers, particularly in banking, insurance, telecommunications and retail areas. The imports of services up 2.96 pc to \$ 9.12 bn in 2016-17. On a monthly basis, it jumped 14.4 pc to \$ 850.96 m in June. Service imports dropped by 10.96 pc to \$7.87 bn in 2015-16 against \$ 8.843 bn in the preceding year. The trade deficit in services increased 4.89 pc to \$ 3.57 bn in 2016-17 year-on-year. On a monthly basis, the trade deficit was 26.17 pc to \$ 407.67 mn in June as against \$ 323.12 mn.

KALEIDOSCOPE

Gibraltar International Airport

In 2015, the airport handled 444,336 passengers and 408,757 kg of cargo on 4,100 total flights. Winston Churchill Avenue, the main road heading towards the land border with Spain, intersects the airport runway, and consequently has to be closed every time a plane lands or departs. The History Channel program Most Extreme Airports ranked the airport the fifth most extreme airport in the world. It is exposed to strong cross winds around the rock and across the Bay of Algeciras, making landings in winter particularly uncomfortable.



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INTERNATIONAL ARENA

ATMs Used for Money - Laundering

When the Commonwealth Bank of Australia on August 9, 2017 reported its profit for the year to June—forecasts and just shy of A\$ 10 bn (\$ 7.9 bn)—it faced questions about cash flows of another sort. Six days earlier the Australian Transaction Reports and Analysis Centre (AUSTRAC), a regulator charged with gathering financial intelligence to combat money-laundering and terrorism, had launched proceedings against it for serious and systemic non-compliance. CommBank, as it is known, is one of Australia's biggest banks. AUSTRAC traces its case to 2012, when the bank started installing 'intelligent deposit machines'. They accept cash, let depositors stay anonymous and allow money to be switched to other accounts in Australia and overseas straight away. CommBank sets a ceiling of A\$ 20,000 per transaction through the machines, but no limit on the number of daily transactions. Australia's other three big banks—Westpac, Australia and New Zealand Bank and National Australia Bank—limit single transactions through their machines to about a quarter of that value. Shifting money around this way has become increasingly popular — in some months CommBank's machines have received A\$1 bn in cash deposits. The regulator says the bank took no steps to assess money-laundering and terrorism-financing risks from this deposit system until mid-2015, three years after it started. The Anti-Money Laundering and Counter-Terrorism Financing Act obliges banks to report cash transactions above A\$10,000 made through their machines within ten days. AUSTRAC claims CommBank failed to do so for about 53,500 suspicious transactions valued in total at A\$ 625 mn. Some were linked to money-laundering groups under investigation by the police; a few even involved customers CommBank itself saw as potential risks for terrorism financing. Deposits of A\$27mn into one account came from a drug syndicate, three members of which have been charged. The regulator says some CommBank accounts were used for 'cuckoo smurfing', a form of laundering money from one country to another without sending it across a border. It said the bank's conduct exposed Australia to "serious and ongoing financial crime". The

bank blames these on a software "coding error" linked to its machines and says it has complied with its reporting obligations since late 2015. Many Australians resent bigger banks, believing that they put profits before customer service. Malcolm Turnbull's conservative government has resisted calls for a royal-commission inquiry into banks. Instead, in its latest budget it imposed a levy on Australia's five biggest, to raise about A\$ 1.5 bn a year. Anna Bligh of the Australian Bankers' Association hopes that the CommBank affair will be a lesson "for the entire financial industry. (*The Economist* – August 12, 2017)

Belt and Road M & As Surge

Mergers and acquisitions by Chinese companies in countries that are part of the Belt and Road initiative are soaring, even as Beijing cracks down on China's acquisitive conglomerates to restrict capital outflows. Chinese acquisitions in the 68 countries officially linked to President Xi Jinping's signature foreign policy totalled \$33 bn, surpassing the \$31 bn tally for all of 2016, according to Thomson Reuters data. Unveiled in 2013, the Belt and Road project is aimed at building a modern-day 'Silk Road', connecting China by land and sea to Southeast Asia, Pakistan and Central Asia, and beyond to the Middle East, Europe and Africa. At a summit in May, Xi pledged \$124 bn for the plan. The surge in Chinese companies' acquisition linked investments in the Belt and Road corridor comes as the volume of all outbound mergers and acquisitions from China has dropped 42 pc year-on-year, the Thomson Reuters data showed.

Is it Smart to Invest in Women-Led Companies

In recent years, some financial services companies have been adding investment products that place bets on women-led firms, investing in companies that have either female chief executives or diverse boards of directors. New research from Scandinavia's largest bank shows why the wager might be a good one. Companies with a woman in the CEO or chairman role have performed far better than a major global index over the past eight years, according to an analysis by the Bank Nordea of nearly 11,000 companies globally. The results, first reported by Bloomberg,



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found that on average, companies with a woman in either of those two top jobs at the end of the calendar year more than doubled the performance of the MSCI World Index in the following year. The annualized return for female-led firms, based on an equal weighting, was 25 pc since 2009, compared with just 11 pc for the broader market. It is not one year that is doing the work according to a portfolio manager at Nordea based in Bergen, Norway who did the analysis. Over the eight years he studied, he said in an interview, there was only one year where they lagged the market. The study adds to a growing body of research aimed at examining whether gender diversity has an effect on corporate performance. Some studies show a link: Credit Suisse, for example, has found that having a woman on the board was associated with better performance, and that having more female top managers was associated with higher returns on equity, valuations and pay-out of dividends, as well as better stock performance.

First Locally Assembled Chinese Car Rolls Out

Al Haj FAW Motors launched on Saturday a locally assembled 1,300 cc FAW V2 hatchback, the first Chinese passenger car. By the end of 2017, the company expects to produce 500 V2 units per month with plans to export right-hand drive cars to China and other international markets eventually. The company aims to increase its production to 15,000 units per annum by 2020 as well as introduce new models. The company has been importing the V2 hatchback as completely built units since 2014. Locally assembled V2 will likely be more affordable than the imported version. The price of the car is Rs. 1,069,000. V2's current in-city average is about 15-16 km a litre. Its average on the highway is 18 km a liter. An official said Rs. 2.5 bn has already been invested in setting up the company.

KALEIDOSCOPE

14 Countries Having More Than One Capital:

- Benin (Porto-Novo, Cotonou)
- Bolivia (Sucre, La Paz)
- Chile (Santiago, Valparaíso)
- Côte d'Ivoire (Yamoussoukro, Abidjan)
- Georgia (Tbilisi, Kutaisi)
- Honduras (Tegucigalpa, Comayagüela)
- Malaysia (Kuala Lumpur, Putrajaya)
- Montenegro (Podgorica, Cetinje)
- Netherlands (Amsterdam, The Hague)
- South Africa (Pretoria, Cape Town, Bloemfontein)
- Sri Lanka (Sri Jayawardenepura Kotte, Colombo)
- Swaziland (Mbabane, Lobamba)
- Tanzania (Dodoma, Dares Salaam)
- Western Sahara (Laayoune, Tifraiti)

Whittier - Is the only City in the World with a Single Building

Whittier is a city at the head of the Passage Canal in the U.S. state of Alaska, about 58 miles southeast of Anchorage. The city is within the Valdez-Cordova Census Area. The 2015 population was 214 people, almost all of whom live in a 14-story building called Begich Towers. Whittier is also a port for the Alaska Marine Highway.



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MANAGEMENT & INFOTECH CORNER

Ride-hailing Services

The entry in Pakistan of ride-hailing services, Careem and Uber, have significantly impacted the public transport sector and created employment for thousands of people. Furthering that paradigm, Careem recently launched 'Become a Careem Captain'; a 360-degree campaign aimed at encouraging people to join Careem as part or full-time drivers. There are two TVCs in the campaign and both have a light, humorous tone, set in a casual, conversational style. The first is about a young couple – the husband brings home extra income and is confronted by a suspicious wife who thinks he is involved. The husband retorts that it is not a woman; it is Careem. The second ad is about an apprehensive father who thinks his young son must be dealing drugs as this can be the only explanation why he is earning so much. Here again, it's not drugs, it's Careem.

Home Ownership in USA

Home ownership in the United States hit a 50-year low in 2016. It's sparked a big debate in economic and cultural circles: Is the American Dream of owning a home dying? Or is this just a temporary blip? The New York Federal Reserve keeps reminding people that Millennials (among others) are so saddled with student loan debt that they aren't able to buy homes like generations past.

BRUSH UP YOUR ENGLISH

Nouns used only in the singular

Some nouns are used only in the singular, even though they end in -s. These include: the names of academic subjects such as *classics*, *economics*, *mathematics/maths*, *physics*; the physical activities *gymnastics* and *aerobics*; the diseases *measles* and *mumps*; and the word *news*.

Nouns used only in the plural

Some nouns only have a plural form. They cannot be used with numbers. They include the names of certain tools, instruments and articles of clothing which have two parts.

Tools and instruments

Binoculars- Headphones- Sunglasses- Glasses- Scissors- Tweezers

Clothing : *Jeans – Pyjamas- Tights- Knickers- Shorts- Trousers*

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