



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan\*

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Volume 14, Issue No. 34 | Date: August 23, 2019

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

## PAKISTAN OVERVIEW

### Fresh Note Issuance on Eid-ul-Azha 2019- Rs. 284 bn

The State Bank of Pakistan (SBP) through its subsidiary SBP Banking Services Corporation, issued fresh banknotes of various denominations aggregating to Rs. 284 bn, including Rs. 274 bn via commercial banks and Rs.10 bn via cash counters of SBP BSC, during days leading to Eid-ul-Azha. Out of the total notes issued to commercial banks, Rs. 12 bn of lower denominations (up to Rs. 100), fresh notes have been provided for onward distribution among general public and account holders. SBP BSC has also provided a sufficient quantity of fresh and good quality ATM notes of higher denominations to commercial banks for smooth ATM operations during the Eid Holidays.

### 1,320MW Coal-fired Hub Power Plant Commissioned

The government confirmed on Sunday successful commercial operations of a \$2 bn 1,320MW coal-fired power plant set up by the China Power Hub Generation Company (CPHGC) under the China-Pakistan Economic Corridor (CPEC) project. CPHGC has successfully undergone through commissioning tests as per the agreed procedure. The engineer has certified the successful commissioning of the complex said a notification issued by the Central Power Purchasing Agency (CPPA) — a government-owned subsidiary responsible for procuring power from plants and selling them to distribution companies.

### Big Industry Contracts 3.6pc in FY19

The large-scale manufacturing (LSM) sector shrank by 3.64pc in 2018-19 against the growth projection target of 8.1pc for the outgoing fiscal year, the Pakistan Bureau of Statistics (PBS) reported recently. In June, the last month of the outgoing fiscal year, the big industry posted a negative growth of 5.05pc on a year-on-year basis. The LSM constitutes 80pc of manufacturing and 10.7pc of the overall GDP. In comparison, small-scale manufacturing accounts for just 1.8pc of GDP and 13.7pc in manufacturing.

### CAD Contracts 73pc in July

The current account deficit (CAD) shrank by a massive 73pc in the first month of this fiscal year, reported the State Bank of Pakistan recently. The CAD plunged by 72.81pc to \$579 mn in July, as compared to \$2.13 bn in same period of 2018-19. This was in line with the downward trend witnessed throughout 2018-19 when the deficit stood lower by 31pc to \$13.58 bn, from \$19.8 bn in FY18 – recording a decrease of \$6.3 bn. This must be a relief for the government which has been struggling to plug the deficit through borrowing from donor agencies, commercial banks and friendly countries. Primary contributor to the noticeable decline was the governmental measures aimed at curbing the imports.

## 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 191.00	PKR 175.50	PKR 158.50
ENDING	PKR 192.50	PKR 174.50	PKR 157.90
CHANGE	+1.5	-1.00	-0.6

### PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	28,764
ENDING	31,350
CHANGE	+2586

### GOLD RATE

	(10 gm)
STARTING	PKR 74,588
ENDING	PKR 75,360
CHANGE	+772



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## Payment Systems Infrastructure

Commercial Banks in Pakistan are expanding their infrastructure for supporting e-Payments due to SBP's enabling policies. As on quarter-end January-March, 2019, there are 15,549 bank branches reported by the Banks/MFBs, out of which 114 are overseas branches. All branches, except 27, are providing online banking services to their customers. There are 14,575 ATMs and 55,240 POS machines in the country. Besides, banks are also providing Internet, Mobile and Call Center Banking facilities to their customers.

## Overseas Pakistanis Remit US \$2 bn

Overseas Pakistani workers remitted US \$ 2039.30 mn in the first month (July) of FY20 as compared with US \$ 1981.73 mn received during the same period in the preceding year. During July 2019, the inflow of workers' remittances amounted to US \$ 2039.30 mn, which is 23.91pc more than June 2019 and 2.9pc more than July 2018. The country wise details for the month of July 2019 show that inflows from Saudi Arabia, UAE, USA, UK, GCC countries (including Bahrain, Kuwait, Qatar and Oman) and EU countries amounted to US \$ 470.95 mn, US \$ 427.33 mn, US \$ 332.37 mn, US \$ 299.27 mn, US \$ 198.06 mn and US \$ 58.30 mn respectively.

## Trade Deficit Shrinks 29pc in July

The government's battle against bloated trade deficit is bearing fruits as it shrank by 29pc in the first month of this fiscal year, driven largely by a decline in non-essential luxury items. The trade deficit decreased 28.84pc to \$2.27 bn in July, from \$3.19 bn over the corresponding month of last year. The government has projected to reduce the annual trade gap to \$27.476 bn by June 2020. In 2018-19, the trade deficit fell to \$31.82 bn from \$37.58 bn over the previous year, registering a decline of 15.33pc. This contraction can primarily be attributed to a steep fall in the overall import bill even though export proceeds posted a mixed trend during the same period.

## Car Sales Plunge by 42pc in July

The first month of 2019-20 started off on for the auto sector with 23pc and 42pc declines in car production and sales respectively to 16,472 and 10,968 units. The key contributor to this lower production was the closure of production by

Honda Atlas Cars from July 12-21 besides observing Saturday as a holiday for the last few months. The maker of Toyota cars, Indus Motor Company (IMC), also did not roll out vehicles for eight days besides observing two Saturdays off, taking cumulative the shutdown of IMC plant for 10 days in July.

## Rs. 15.4 bn Disbursed for Uplift Schemes

The government disbursed Rs15.4 bn to the country's development program in the first month of the current fiscal year. According to official data released by the Planning Commission, the total disbursement of Rs. 15.4 bn for the Public Sector Development program (PSDP) in the first month (July) of the current fiscal year accounted for 2.68pc of an annual allocation of about Rs. 575 bn. In comparison, the government had released Rs22.784 bn for the PSDP during the same period last year which amounted to 2.76pc of the total allocation of Rs. 825 bn for that year. The Planning Commission reported that as of August 9 this year, an amount of Rs. 10.256 bn was released for development program of federal ministries and divisions, compared to Rs. 17.9 bn during the same period last year, showing a reduction of almost 43pc.

## DIGEST

- The Pakistan Horticulture Development & Export Company is working on a comprehensive plan to enhance exports of fruits and vegetables to \$ 1 bn within the next three years.
- Citrus growers reject the purchase rate of Rs. 600 per 40 kg for Kinnow in the upcoming season terming it a conspiracy by traders to harm orchid owners.
- The Country needs to invest around \$ 15 bn in a short period for inducting 0.2 mn trucks to fill the gap created by the implementation of the axle load regime.
- Pakistan's total imports from India in 2018 amounted to \$ 514 mn, of which Cotton - \$ 344 mn, Dyes - \$ 50 mn, Cotton Yarn- \$ 85 mn, Textile Spinning Machines - \$ 35 mn.
- Pakistan's total exports to India in 2018 totaled \$ 154 mn, of which Fresh/ Dried Dates- \$ 92 mn, Cement - \$ 62 mn.



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## INTERNATIONAL VISTA

### Weak Global Growth to Mean US Slowdown

How fragile is the global economy? The US-China trade war is weakening businesses in both countries, Germany's economy shrank in the second quarter, and Britain appears headed for a disruptive exit from the European Union this fall. Those trends have hammered American manufacturers and caused global financial markets to plunge on fears that the world's largest economy could slip into a recession. Yet most analysts expect the US economy to power through the rough patch, at least in the coming months, on the strength of solid consumer spending and a resilient job market. The US stock market plummeted earlier this week when the bond market, spooked by the global turmoil, sent a possible early warning sign of a recession ahead: The yield on the benchmark 10-year Treasury note slipped briefly below two-year Treasury yields.

### Is the Clock Ticking Again for Argentine Debt?

A collapse in Argentina's Peso currency this week and soaring borrowing costs have fueled investors' concern that Latin America's third-largest economy is heading for another debt restructuring. The International Monetary Fund's next review of the country's \$57 bn lending program on Sept 15 should provide a sign of whether Argentina's lender of last resort now thinks the same.

### Alibaba Co-founder Tsai to Buy Full Control of NBA Nets

Joseph Tsai, co-founder of Chinese e-commerce giant Alibaba, has made a deal to purchase full control of the NBA's Brooklyn Nets from Russian businessman Mikhail Prokhorov, the club announced recently. The Nets said Prokhorov has made an agreement with the Taiwanese-Canadian businessman to sell the Barclays Center arena and his 51pc controlling interest in the Nets. Tsai bought 49pc of the Nets last year for \$1 bn, with the chance to purchase more shares before the start of the 2021-22 campaign. The deal, according to multiple reports, will cost Tsai \$2.35 bn, the highest price ever paid for a US sports team.

### Huawei Gets 90-day Reprieve in US Ban

The Trump administration gave Huawei Technologies a 90-day reprieve recently from a ban on doing business with US companies, as high-stakes trade talks between Washington and Beijing struggle to show gains. The move means Huawei can continue to buy US-made semiconductors and other materials crucial to its phones and network equipment, and that US telecommunications companies can continue to buy Huawei's networking equipment. The US Commerce Department effectively suspended for a second time tough rules banning US companies from selling technology components and services to the Chinese telecommunications giant and a prohibition on buying equipment from it.

### Greenland Not for Sale

Greenland is not for sale, local authorities said, after a newspaper reported that US President is looking into whether it might be possible to buy the mineral-rich Arctic island. Trump has expressed interest in the self-governing territory, which is mostly covered in ice, asking advisors if it is possible for the US to acquire it, The Wall Street Journal said. Greenland is part of Denmark, which colonized the 772,000 square-mile island in the 18th century, and is home to only about 57,000 people, most of whom belong to the indigenous Inuit community. There has been no official comment from the White House, and the Danish embassy in Washington did not immediately respond. Greenland's ministry of foreign affairs insisted the island was ready to talk business, but was not for sale. Greenland is rich in valuable resources such as minerals, the purest water and ice, fish stocks, seafood, renewable energy and is a new frontier for adventure tourism.

### Signs of Recession

The US President is warning of an economic crash if he loses reelection, arguing that even voters who personally dislike him should base their ballots on the nation's strong growth and low unemployment rate. But privately, Trump is growing increasingly worried the economy would not look so good come Election Day. The financial markets signaled the possibility of a US recession this week, sending a jolt of anxiety to investors, companies and consumers. That is on top of concerns over Trump's plans to impose



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punishing tariffs on goods from China and word from the United Kingdom and Germany that their economies are shrinking.

## No Higher Interest Rates for Next Few Years

German Finance Minister Olaf Scholz said recently that he expected interest rates to remain very low for 'the next few years', adding that companies should seize the opportunity of near-zero borrowing costs to boost private sector investment. The European Central Bank has already signaled even more monetary stimulus for the Eurozone economy, hoping to arrest a downward spiral that could lead to an economic recession.

## Johnson Tells Germany and France for BREXIT Deal

Prime Minister Boris Johnson called on France and Germany to change their position on BREXIT and negotiate a new exit deal for Britain, reiterating his stance that he is ready to leave the European Union without a deal if they do not. With Britain set to leave the bloc on Oct 31, it has less than 74 days to resolve a three-year crisis that is pitting the country against the EU, and parliament against the executive.

## MILESTONES

### Kristalina Georgieva Selected by EU for IMF Top Job

Kristalina Georgieva, the Bulgarian chief executive of the World Bank, has been picked as Europe's choice to lead the IMF. Ms Georgieva is now favorite to become the next head of the IMF when the fund's governing board votes on candidates in early October.

### Aamir Khan New Chairman SECP

The federal government recently has notified appointment of Aamir Khan as chairman of the Securities and Exchange Commission of Pakistan (SECP) with immediate effect.

## MANAGEMENT OUTLOOK

### Facebook Launches Tool to Let Users Control Data Flow

Facebook, under pressure to ramp up privacy rules across its platform, said recently it was rolling out a tool allowing users to control data that it receives from other apps and websites about their online activity. The new tool is to give clients access to their so-called "off-Facebook activity" — fed back to Facebook with the aim of targeting advertisements — and give them the option of deleting it. "Off-Facebook Activity lets you see a summary of the apps and websites that send us information about your activity, and clear this information from your account if you want to," it said in a statement.

### Design Off-sites That Are Actually Useful

Off-site meetings can be great for team building and alignment, but often those benefits vanish when everyone returns to their day-to-day work. To make sure your next off-site has a lasting impact, define the specific goals you hope to achieve and how you will measure them. (Try completing this statement: "I would be really happy if, by the end of the off-site, we..."), Whatever you decide, let the goals influence who gets invited. If the purpose of your off-site is to have a discussion about fiscal year objectives, for example, a large meeting will be less effective. Be sure to write out an agenda. A good rule of thumb is to spend 45 minutes to two hours on each topic and double-check that the agenda supports your goals. During the meeting, push people to think strategically about the bigger picture and tackle issues that daily operations have not been able to resolve. Then schedule check-ins to keep everyone accountable and on track once the off-site is over.

(This tip is from *6 Tips for Running Off-Sites That Aren't a Waste of Time*, by Melissa Raffoni-HBR.)

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