



# 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 August 4, deposits and other accounts of all scheduled banks stood at Rs. 11.62 trn, a decrease of 0.69 pc over the preceding week's Rs. 11.70 trn.

#### Pension Funds

Although a late entrant in the country's financial system, pension funds are making solid progress in capital markets. The old-age pension system in Pakistan can be divided in two categories: the government-run pension schemes for public sector employees and private pension fund industry for the corporate sector. Private sector-run pension funds are categorized as Non-Banking Finance Companies (NBFCs) and are governed through Voluntary Pension System Rules 2005. The regulatory authority for registration, licensing and operational supervision is the Securities and Exchange Commission of Pakistan (SECP).

#### Brief overview of the pension fund industry

No. of Pension Funds	17
Conventional Pension Funds	9
Islamic Pension Funds	8
Pension Funds Manager	10
Total Assets	Rs. 19.316 million
Annual Growth (2016)	39 pc
Sector-Wise Investment	53pc Equity, 31pc Debt, 15pc Money Market, 1pc Commodity

Source: SECP Annual Report 2016

#### Sugar Exports

The State Bank of Pakistan (SBP) has asked authorized dealers (banks) to start processing applications for sugar exports. The SBP issued a circular on Aug 11 that said the process will begin as per the instruction given by the Ministry of Commerce on July 2 for the export of 300,000 tonnes of sugar. Sugar mills are not

### MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

#### KIBOR (6 months)

	Bid%	offer%
BEGINNING	5.90	6.15
ENDING	5.90	6.15
CHANGE	0	0

#### Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
BEGINNING	PKR 136.50	PKR 123.75	PKR 106.50
ENDING	PKR 135.00	PKR 124.00	PKR 106.40
CHANGE	-1.5	+0.25	-0.1

#### Pakistan Stock Exchange

	100 Index
BEGINNING	43,078
ENDING	42,641
CHANGE	-437

#### Gold Rate

	(10 gm)
BEGINNING	PKR 43,628
ENDING	PKR 43,714
CHANGE	+86



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satisfied with the limit of 300,000 tonnes set by the Economic Coordination Committee of the cabinet. They claim there is a glut-like situation in the domestic market. They demand that the limit on the export volume of sugar should be enhanced. Sugar prices recently increased in the domestic market as some parts of the country suffered shortages of the commodity. The SBP advised the authorised dealers to forward the requests of sugar mills to the director of the central bank's Foreign Exchange Operations Department (FEOD) for approval. Sugar exporters will have to provide irrevocable letters of credit or advance payment voucher, swift message and reporting schedule or credit advice.

'The FEOD will allocate sugar export quotas to sugar mills on a first-come-first-served basis,' said the circular. 'The authorized dealers will ensure receipt of a minimum 15 pc of total contract value as advance payment (evidenced by advance payment voucher, swift message and reporting schedule or credit advice) or obtain an irrevocable letter of credit from the buyer,' said the SBP.

'All exports, including those destined for Afghanistan and Central Asian Republics, will also be subject to receipt of export proceeds by wire transfer through the banking channel,' it added. The SBP circular made it clear that there will be no export subsidy or cash support for the export.

## **SME Financing Rises 27 pc**

Outstanding financing for small and medium enterprises (SMEs) increased 27 pc to Rs. 380 bn in 2016-17, said a report by the State Bank of Pakistan (SBP). The government has been trying to boost the SME sector for many years. But the size of SME financing is still significantly lower than private-sector financing, which increased by Rs. 699.4 bn during the same period. However, the ratio of non-performing loans (NPLs) for the SME sector dropped from 27.3 pc to 20.7 pc during the same period. SME financing as a percentage of private-sector financing dropped to 7.99 pc from 8.23 pc at the end of March. However, it stood at 7.34 pc in June 2016. Successive governments as well as the SBP have emphasized the need for higher growth in the SME sector. But commercial banks avoid lending to SMEs because of their high default ratio.

## **LIMELIGHT**

- ◇ Foreign and local investors have agreed to inject Rs. 220 bn into the real estate market
- ◇ Service exports rose 1.76 pc year-on-year to \$ 5.55 bn in 2016-2017
- ◇ Foreign direct investment jumped by 163 % YoY to \$ 222.6 mn in July 2017
- ◇ The country's overall revenue collection grew by more than 70 pc during the last four years
- ◇ The World Bank has provided funds worth \$3.8 mn to protect forests.
- ◇ Eidul Azha Economy is estimated to be Rs. 350 bn – of which about Rs. 192.5 bn is generated by sales of cows and calves
- ◇ Nearly Rs. 127.5 bn comes from sales of goats and sheep
- ◇ Around Rs. 8 bn is generated by sales of camels
- ◇ Rs. 22 bn business activity takes place in allied industries



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## INTERNATIONAL ARENA

### Wall Street firm bets American Dream is dying

A big Wall Street firm is betting that America is likely to become the United States of Renters. On Thursday, private equity behemoth Blackstone announced a major merger of its own Invitation Homes Inc. with another company, Starwood Waypoint Homes. It's the kind of news that makes most people's eyes glaze over. But after the deal is done, Invitation Homes will be America's biggest landlord of single-family homes, owning more than 82,000 houses, mostly in major cities like Chicago and Miami. In plain speak, this means a top Wall Street company and a top real estate company think there's a lot more money to be made renting property to Americans who either can't afford to buy or don't want to become homeowners. 'This merger creates the leading single-family rental company in the United States,' said Fred Tuomi, CEO of Starwood Waypoint Homes. He called it a 'winwin' for both residents and stockholders.

### Timely Rain Spices Up Chilli Outlook

The growers of longi chilli, a type known for its spicy taste and distinctive aroma, anticipate a better harvest this season despite a drop in the area under cultivation. They say the fruiting in plants looks good thanks to timely and moderate rain during the monsoon. The area under its cultivation is now 74,100 acres during the current season (2017-18), due mainly to the shortage of irrigation water in chilli-producing areas in March and April when sowing was at its peak. Most of the country's chilli production comes from Sindh, mainly from Umerkot district's Kunri town where one of Asia's largest chilli markets is located. In 2016-17, Sindh produced 99,699 tonnes of chilli. The contribution by other provinces is negligible so far. A hybrid variety of green chilli with higher yield potential is being regularly sown in Kunri. Longi chilli will be harvested from the next month. This type of chilli has been beset by contamination in the recent past, but growers are now benefiting from different measures taken by foreign donor agencies and the corporate sector.

### ISO Certification Boosts Meat Exports

The concerns of European countries over food export consignments may now be addressed as Pakistan has improved its food safety control system. The Veterinary Residue Laboratory in Faisalabad has acquired the capability to certify the safety of food with the assistance of the International Atomic Energy Agency (IAEA) and United Nations Food and Agriculture Organization (FAO). The laboratory, established by the Nuclear Institute for Agriculture and Biology (NIAB) of the Pakistan Atomic Energy Commission (PAEC), has recently earned International Organization for Standardization (ISO) accreditation. Officials expect the development would contribute to increasing meat exports. According to the principles of food safety, the ultimate responsibility lies with the producer. But in reality, when looking at the food sector as a 'farm-to-plate' industry, it becomes obvious that problems can occur at any point in the supply chain. The farmers may produce food safely, but contamination can happen during transport, storage, at home or at the market. Sausages made of sheep meat are a key export product and are monitored by 13 quarantine centers in Pakistan. These centers rely on credible laboratory testing, which for the first time is now available at the Faisalabad's Veterinary Residue Laboratory.

### A Visionary Eyeglass Company

The eyeglass seller Warby Parker started in 2010 with \$ 2,500 in funding. Five years later, the company was worth \$ 1.2 billion.

## QUOTABLE QUOTE

**I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel.**

--Maya Angelou



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## MANAGEMENT & INFOTECH CORNER

### Artificial Intelligence - AI

With the assistance of advanced technology and artificial intelligence (AI), the US Postal Service can, without human assistance, process about 98 pc of all mail that is addressed by hand and 99.5 pc of machine-printed mail.

### Proceeding After a Meeting

After a meeting ends, it can be challenging to keep your team focused on doing the agreed-upon tasks. You need to end the meeting with clear agreement on specific actions and completion dates for them, but that's not enough. Ask people to speak up if they realize they would not be able to deliver on an action item. Assign someone to track and follow up on action items between meetings. And keep a running tally of which items get done, aiming for an 85 pc completion rate. But do not let the tracking turn you into a taskmaster. Be understanding if things come up and people are not able to meet their deadlines. (Adapted from *How to Get Your Team to Follow Through After a Meeting*, by Paul Axtell)

### Questions to Ask Before Your Next Decision

You should not spend an equal amount of time on each decision — if you do, you will short-change some and waste time on others. To be more efficient, sort decisions into three categories: strategic, significant and quick. Strategic decisions are often analytically complex and have the potential to impact the long-term direction of your company. They require the most attention, as well as a rigorous, comprehensive process. Significant decisions require a sound business case, and can add up to considerable investment, but aren't critically important on their own. Quick decisions aren't complex, and can often be delegated to others. Consider coming up with straightforward rules and checklists to help you make these decisions as quickly as possible. (Adapted from *A 4-Step Process to Help Senior Teams Prioritize Decisions*, by Peter Hopper and Jugnu Sakuja)

## KALEIDOSCOPE

### The World's Ten Biggest Economies in 2017

- The economy of the United States is the largest in the world. At \$ 18 trillion, it represents a quarter share of the global economy (24.3 pc), according to the latest World Bank figures.
- China follows, with \$11 trillion, or 14.8 pc of the world economy.
- Japan is in 3<sup>rd</sup> place with an economy of \$4.4 trillion, which represents almost 6 pc of the world economy.
- European countries take the next three places on the list:
  - Germany in 4<sup>th</sup> position, with a \$ 3.3 trillion economy
  - United Kingdom in 5<sup>th</sup> with \$ 2.9 trillion
  - France in 6<sup>th</sup> with \$ 2.4 trillion.
- India is in 7<sup>th</sup> place with \$ 2 trillion
- Italy in 8<sup>th</sup> with an economy of over \$ 1.8 trillion.
- 9<sup>th</sup> place goes to Brazil, with an almost \$ 1.8 trillion economy.
- And in 10<sup>th</sup> is Canada, with an economy of over \$ 1.5 trillion