



Economic Letter

a weekly publication of The Institute of Bankers Pakistan*

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Volume 14, Issue No. 37 | Date: September 13, 2019

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

PAKISTAN OVERVIEW

Reserves Soar to \$15.751 bn

Foreign exchange reserves of the State Bank increased by \$182 mn to \$8.462 bn during the week ending Sept 6. The total reserves of the country rose to \$15.751 bn while the holdings of the scheduled banks were \$7.89 bn.

Economy On the Mend: SBP Governor

State Bank Governor Reza Baqir told an audience of business leaders in Lahore recently that the reasons behind the increasing trade deficit in recent years was the absence of a market-based exchange rate and tried to reassure them that the economy is gradually improving. "In previous years, whenever the trade deficit increased, the exchange rate did not adjust as it was kept fixed. And it led to increase in the deficit since there was an intervention in the system," Mr Baqir said while talking to the business community here at the office of the Federation of Pakistan Chambers of Commerce and Industry (FPCCI). "We have brought the exchange rate in the market system by devising a policy that ensures monitoring of supply and demand movements," he added.

Govt. Finalizes Plan to Increase Power Generation Capacity

The government plans to increase the country's power generation capacity by almost 300 pc in next 20 years to 111,000 MW and phase out almost all of the existing thermal power plants to meet rising energy demand at affordable costs. The move is part of the Indicative Generation Capacity Expansion Plan (IGCEP) 2018-40 finalized by the National Transmission and Dispatch Company in consultation with all the federal and provincial agencies and private sector consultants to ensure low-cost development of future projects and to comply with regulator's Grid Code obligations.

Mango Exports Up

Mango exports from Pakistan crossed the figure of 100,000 tonnes last week and this is by no means over. The next two weeks may add another 10,000 to 15,000 tonnes to the tally. This would be a healthy sign given the last year's figure that was around 86,000 tonnes. One should not forget these figures do not include the unofficial trade with Iran, Afghanistan and beyond. According to the Department of Plant Protection (DPP), which certifies official exports, the figure stood at 101,296 tonnes on September 3. As per the Pakistan Horticulture Development and Export Company (PHDEC), the last time when mango exports crossed the 100,000-mark was 2011-12.

Textiles Spins

While Pakistan has textile production capacity is worth \$1.5-2 bn but it is not working in the right direction because of certain drawbacks. While much capacity is inoperative

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

MONETARY POLICY RATE

Effective from July 16, 2109 - 13.25pc

KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	13.79	14.04
ENDING	13.71	13.96
CHANGE	-0.08	-0.08

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 192.00	PKR 172.00	PKR 155.50
ENDING	PKR 193.00	PKR 173.00	PKR 156.40
CHANGE	+1.00	+1.00	+0.9

PAKISTAN STOCK EXCHANGE

100 Index

STARTING	30,467
ENDING	31,481
CHANGE	+1014

GOLD RATE

(10 gm)

STARTING	PKR 76,303
ENDING	PKR 75,617
CHANGE	-686



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owing to a variety of factors, it can still be revived. In comparison, countries like Bangladesh, Vietnam and India have dramatically enhanced their exportable surplus. Bangladesh alone has added 3.75 mn spindles and 41,000 shuttle-less looms in the last 10 years compared with Pakistan's 2.45 mn spindles and 7,600 shuttle-less looms. India, on the other hand, added 20.4 mn spindles and 89,000 shuttle-less looms during the same period. In 2018, according to the World Trade Organization (WTO), Bangladesh ranked third after China and the European Union (EU) on the list of 10 largest global exporters of garments with shipments valuing at \$32.5 bn and Vietnam occupied fourth place with \$31.3 bn. Pakistan with garment exports of \$5.5 bn could not find a place on the list. For countries like Vietnam and Bangladesh, export promotion is a national strategy to lift overall economic growth.

Committee Begins Work to Probe Circular Debt

The committee constituted last month to audit the country's power sector, which was tasked to suggest ways for resolving the issue of growing circular debt and recommend a sustainable roadmap for future energy security, has initiated its inquiry. The committee was notified by the Power Division of the energy ministry on August 7 but could not begin work until the end of last month. The committee will strive to produce its first report in one month. The final, consolidated report will take three months to finalize according to the committee's chairman.

Private Sector Borrowing

In the first two months of the current fiscal FY20, private sector credit off-take was negative, indicating that firms are largely retiring loans rather than borrowing either for investment or working capital requirements. The State Bank's latest data shows the private sector credit was negative Rs. 84.6 bn till August 30 against a net borrowing of Rs. 30.6 bn in the same period

Pakistan's Major Economic Indicators - FY 2018 & FY 2019

REAL SECTOR (GROWTH IN %)	FY 2018	FY 2019*	-	-
REAL GDP	5.5	3.3	-	-
AGRICULTURE SECTOR	3.9	0.9	-	-
INDUSTRIAL SECTOR	4.9	1.4	-	-
SERVICES SECTOR	6.2	4.7	-	-
CPI INFLATION (YoY)	FY 2018**	FY 2019**	June 2019	July 2019
Over ALL	3.9	7.3	8.9	10.3
FOOD INFLATION	1.8	4.6	8.2	9.2
NON-FOOD	5.4	9.2	9.3	11.1
NON-FOOD, NON- ENERGY	5.8	7.9	7.2	7.8
MONETARY SECTOR (IN PKR)	FY 2018	FY 2019*	July 2019***	
CURRENCY IN CIRCULATION	476.5 BN	562.2 BN	245.7 BN	-
TOTAL DEPOSITS	935.5 BN	1232.4 BN	-671.8 BN	-
*PROVISIONAL	-	-	-	-
** PERIOD AVERAGE	-	-	-	-
*** LAST WEEKEND OF THE MONTH	-	-	-	-
SOURCES: PBS/ STATISTICS DEPT. SBP (July 2019)	-	-	-	-



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of last fiscal year. When contacted, the president of a commercial bank said the situation would be clear at the end of the first quarter but he considered the slow economic growth and high cost of borrowing as major reasons for low private sector credit off take. He said the private sector was still borrowing from banks but the amount was lower than the amount of debts retirement. Bankers said the government has been offering attractive returns in its debt auctions that have attracted robust participation while at the same time, making money costlier for the private sector.

Appliance Sales Slow

Barring a big importer cum assembler of domestic appliances, local makers and their dealers are worried over slowdown in sales from July onwards blaming high prices and taxation measures. Sales of deep freezers and refrigerators also failed to pick up this year in Eidul Azha, following decline in slaughtering of sacrificial animals, they claimed. Besides, demand of air conditioners did not show any steep jump despite hot weather from April to August. Commenting on air conditioner sale, an executive in a Lahore based company, who did not wish to be named, said the AC sales witnessed 20-30 pc drop in July-August as compared to same period last year due to high prices and some taxation measures taken by the government in Budget FY20 like CNIC condition on sale of above Rs. 50,000 for dealers.

IMF Program on Track: Govt.

The government recently said its reform agenda signed with International Monetary Fund (IMF) was on track and the progress so far on nearly all the performance and structural benchmarks for first quarter of the current fiscal year were very encouraging with strong indication that all the targets will be met. "The progress on nearly all the performance and structural benchmarks during Q1FY20 is encouraging and targets will be met. Finance ministry is fully committed along with the IMF towards the ongoing reforms program", said the ministry of Finance. The ministry apparently issued the statement after certain media reports about program renegotiation owing to major fiscal slippages on the conclusion of fiscal year 2018-19. The ministry said it believed the "targets under IMF program are ambitious, there is no need to renegotiate."

INTERNATIONAL VISTA

US-UK Trade Deal Not So Easy Post-BREXIT

Britain has not even separated from the European Union yet, and already a new partner has come calling: United States. During a visit this week to the United Kingdom, Vice President Mike Pence brought word from President Trump: The United States is eager to reach a new trade pact one that would not be possible until Britain completes BREXIT and moves out of the 28-country EU trading bloc. "Our message is clear: The minute the UK is out, America is in," Vice President said in a visit with British Prime Minister Boris Johnson at 10 Downing Street. Building a new US-UK trading relationship atop the wreckage of BREXIT would not be easy. British officials are already vowing to resist an agreement that is lopsided in favor of the more powerful United States, creating potential for disputes over matters such as chlorinated chicken and the divisive Scottish dish haggis.

Saudi Reforms Start to Yield Results: IMF

Saudi Arabia's economic reforms, including VAT and higher energy prices, have started to yield results, but more needs to be done to plug a chronic budget deficit, the IMF said recently. After a crash in oil prices that shrank Saudi Arabia's revenues and led to budget shortfalls for five years in a row, the world's largest crude exporter imposed a raft of measures to diversify its economy. Reforms have started to yield results and the outlook for the economy is positive, the International Monetary Fund said in a regular report. But it said the kingdom, where oil income still accounts for 70 pc of public revenues, must extend adjustments in the price of utilities and fees levied on expatriates.

Crisis-hit Nissan CEO Resigns

Nissan's CEO said recently he will step down next week, deepening the crisis at the Japanese car giant still reeling from the exit of former chief Carlos Ghosn's over alleged financial misconduct. It is yet another blow for the firm that has seen sales plunge and been forced to slash jobs since Ghosn's stunning arrest for allegedly hiding part of his salary from official documents to shareholders. Hiroto Saikawa said he would leave the company on September



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16, following the results of an investigation into excess pay he received after altering the terms of a bonus. Saikawa is suspected of improperly adding 47 mn Yen (\$440,000) to his compensation under a scheme in which directors can earn a bonus if their company's share price rises above a certain level in a set period.

US Economy Untouched by Trade War

US Treasury Secretary Steven Mnuchin said recently that America's economy was unscathed after more than a year of trade conflict with China and Europe. The remarks brushed aside concerns prompted by recent economic data showing slower employment growth, falling business investment and a weakening manufacturing sector, which have intensified recession warnings. "There is no question there has been a considerable slowdown in the world economy both in China and in Europe but as you look at the US, we continued to be the bright spot. We have not seen any impact on the US economy," he added.

World Bank's Georgieva to Become IMF Chief

A top executive at the World Bank, Kristalina Georgieva of Bulgaria, now faces no opposition in her candidacy to lead the International Monetary Fund, the fund announced on September 9. Georgieva, currently the bank's chief executive officer, is all but guaranteed to become the second woman ever to lead the fund. Georgieva will replace former IMF chief Christine Lagarde, who has been named to lead the European Central Bank. Under an unwritten rule, a European has always led the IMF since its creation in the aftermath of World War II, while Washington has designated the leadership of the fund's sister organization, the World Bank.

Russia Woos Asian Investors in Russia's Far East

President Putin sought to lure Asian investment to Russia's Far East recently as the launch was announced of a huge Arctic gas project aimed at Asian markets. It was highlighted in the plenary session of the Eastern Economic Forum that the region is full of hardworking, energetic people, industries of the future and the richest reserves of natural resources and therefore full advantage must be taken of these opportunities. Moscow has hosted the forum every year since 2015 as it looks to bolster ties with Asia amid tensions with the West. Russian gas firm Novatek announced at the forum, the

launch of a major liquefied natural gas project in the Arctic with Chinese, French and Japanese partners. Novatek said a final decision had been made on financing the \$21 bn Arctic LNG 2 project with partners including France's Total, CNPC and CNOOC of China, and a Japanese consortium of Mitsui & Co and JOGMEC.

Digital Wealth Concentrates in US, China

The global digital wealth is concentrated around a small number of individuals and companies in US and China. The platforms based in these two countries hold the lion's share accounting for nearly 75 pc of all patents related to block-chain technologies, 50pc of global spending on the 'Internet of Things', more than 75pc of the cloud computing market and as much as 90pc of the market capitalization value of the world's 70 largest digital platform companies. The data was released by United Nations Conference on Trade and Development (UNCTAD) in the first-ever 'Digital Economy Report 2019'. Seven "super platforms": Microsoft, Apple, Amazon, Google, Facebook, Tencent and Alibaba account for nearly two-thirds of the total market value of the top 70 platforms. The combined value of platform companies with a market capitalization of more than \$100 mn was estimated at more than \$7 tr in 2017 — 67pc higher than in 2015, according to the report.

Indian Economy on Weaker Pitch

- Indian Automakers have so far laid off about 350,000 workers since the advent of 2019.
- India's Automotive Industry is the fourth largest in the world, employing 35 mn people, directly or indirectly, accounting for nearly half of India's manufacturing output.
- According to India Ratings, a Fitch Group Company, the real revenue growth for auto consumers' goods sector started declining two years ago, but the slowdown gained prominence now.
- India's economic growth slipped to a six-year low of 5 pc in April-June quarter.
- On the other hand, Britannia Industries Ltd, which controls a third of the biscuits market in India, said it has never seen this kind of a slowdown where people are hesitant to buy a pack of biscuits costing just Indian Rupees 5.



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MANAGEMENT OUTLOOK

YouTube to Pay \$170 mn Fine

Google will pay \$170 mn to settle allegations its YouTube video service collected personal data on children without their parents' consent. The company agreed to work with video creators to label material aimed at kids and said it will limit data collection when users view such videos, regardless of their age. Some lawmakers and children's advocacy groups, however, complained that the settlement terms are not strong enough to rein in a company whose parent, Alphabet, made a profit of \$30.7 bn last year on revenue of \$136.8 bn, mostly from targeted ads. Google will pay \$136 mn to the Federal Trade Commission (FTC) and \$34 mn to New York state, which had a similar investigation.

Having a Protégé Will Make You a Better Leader

When a senior leader sponsors a junior employee, supporting and advocating for them, it is obvious that the junior person gains a lot. But so does the senior leader. A good protégé expands your worldview and helps you fill gaps in your skill set and knowledge — which can lead to tangible benefits such as promotions and stretch assignments. To cultivate this type of sponsoring relationship, seek out a protégé who is a high performer and trustworthy. This person's reputation will become intertwined with your own, so consider how his or her actions at work may reflect on you. And while protégés do not have to be young, they should be different from you, perhaps in gender, ethnicity, sexual orientation, professional background or life experience. Think about where your blind spots are, or what areas you wish you knew more about, and use those insights to inform your decision. Also think about what you are an expert in and who might need that expertise. When managed well, a sponsoring relationship will help both of you rise and thrive. (This tip is adapted from *Want to Be a Better Manager? Get a Protégé*, by Sylvia Ann Hewlett- HBR.)

During Vacation Season, Help Employees Stay Productive

There are certain times of the year when it is especially hard to stay focused and productive. (Think late summer and around the winter holidays.) During these typically slow periods, when the office might be almost empty, consider how you can give your employees extra flexibility. For example, some people might want to come in and leave early to have more family time before the school year starts. Others may want to work remotely so they can go out of town while still getting their work done. But do not assume what your employees want, ask them. And equip managers to make the call on what to allow. Giving employees greater control over their schedules, even for short periods of time, can boost morale and keep everyone's productivity at a good (and reasonable) level. (This tip is adapted from *How to Help Your Employees Stay Productive Around the Holidays*, by Michael Hughes-HBR.)

Before a High-pressure Situation, Distract Yourself

Even the most talented, successful people have bombed a job interview or botched a presentation. When the pressure is on, we tend to panic and start over thinking a task that usually comes naturally to us — and that can make us choke. There are several things you can do to short-circuit this reaction. When you are about to go into a stressful situation, do not over think what is next. Five minutes before the big event is not the time to go over every detail again. Instead, take a few moments to focus on something else. Do a crossword puzzle. Visualize the vacation you are planning for next month. Catch up on the latest issue of your favorite magazine. If you are still struggling to get out of your head, try singing a song or repeating a one-word mantra. By distracting your brain this way, you will keep it from running wild when you need to stay calm. (This tip is adapted from *Why Talented People Fail Under Pressure*, by Sian Beilock-HBR.)

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