



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

Page No. 01

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PAKISTAN COMPENDIUM

BANKING SCENARIO

Deposits Folder

DEPOSITS and other accounts of all scheduled banks stood at Rs11,651.413 bn after a 0.86 per cent increase over the preceding week, according to the weekly statement of position of all scheduled banks for the week ended Aug 25. On a year-on-year basis, the figure was higher by 14.61pc.

Credit Portfolio

Gross advances of all scheduled banks stood at Rs6,034.893bn, higher by 0.27pc over the preceding week's figure. Compared with last year's corresponding figure of Rs5,040.705bn, the outgoing week's figure was higher by 19.72pc

Deposits of Islamic Banks Grow 10 pc

Islamic banks beat their conventional banking counterparts by mobilising deposits at a higher pace in April-June. The State Bank of Pakistan (SBP) issued recently the Islamic Banking Bulletin for April-June, which reveals that deposits of the Islamic banking industry increased by Rs156 bn or 10 per cent quarter-on-quarter to Rs1,720bn. Deposits of the overall banking industry grew 6.5pc over the same period. The share of Islamic banks' deposits in overall banking industry's deposits increased to 13.7pc at the end of June from 13.2pc a quarter ago.

Bike Makers Set Production, Sales Records

Pakistan's top two bike assemblers in August broke all earlier production and sales records. Atlas Honda Limited (AHL) sold a total of 187,249 bikes in July-Aug 2017-18 as against 136,890 and 136,476 units in 2016-17. Production and sales in Aug 2017 stood at 95,200 and 91,599 units while in May 2017 the figures were 90,800 and 93,060 units. United Auto Motorcycle (UAM) production and sales hit 35,555 and 36,084 units in Aug 2017, compared to its earlier record of 32,773 units each in Nov 2016. A total of 35,002 locally assembled cars of PAMA members were sold in the first two months of current fiscal year as compared to 27,317 units in same period last fiscal. Sales of Honda Civic/City, Suzuki Swift and Toyota climbed to 7,766, 722 and 8,657 units as compared to 5,295, 689 and 8,250 units respectively in July-August 2016-17. Suzuki Cultus and Suzuki WagonR sales swelled to 3,670 and 4,137 units from 2,190 and 2,352 units. Suzuki Mehran and Suzuki Bolan sales surged to 6,826 and 3,224 units from 5,676 and 2,865 units.

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

KIBOR (6 months)

	Bid%	offer%
BEGINNING	5.91	6.16
ENDING	5.91	6.16
CHANGE	0	0

Foreign Exchange Rates

	GBP(£)	EURO(€)	USD(\$)
BEGINNING	PKR 137.00	PKR 125.60	PKR 106.00
ENDING	PKR 139.50	PKR 124.50	PKR 105.40
CHANGE	+2.5	-1.1	-0.6

Pakistan Stock Exchange

100 Index

BEGINNING	41,401
ENDING	42,787
CHANGE	+1386

Gold Rate

(10 gm)

BEGINNING	PKR 45,128
ENDING	PKR 44,914
CHANGE	-214



Economic Letter

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Page No. 02

Volume 12, Issue No. 37 | Date: September 15, 2017

Potential for Local Tea Production

A research institute of Mansehra district has found that Pakistan has great potential for producing both black and green tea. The research was aimed at increasing local tea output so that Pakistan's dependence on the commodity's imports could be reduced which stand at around Rs31 bn. The per-capita consumption of tea is estimated to be one kilogram a year. Pakistan is the third-largest importer of tea in the world. It imports black tea from 19 different countries, with the major share of 60 per cent from Kenya. Green tea is mainly imported from China, Vietnam and Indonesia. Both green and black tea varieties are processed at the National Tea and High Value Crops Research Institute (NTHRI) in Shinkiari, 18km north of the Mansehra city on the Karakoram highway. On the recommendations of Chinese tea experts, the National Tea Research Station was set up on 50 acres in Shinkiari with technical assistance from Beijing under the auspices of the Pakistan Agricultural Research Centre (PARC). The aim was to undertake systematic research and promote tea plantation. Based on the results from the cultivation of Chinese-origin tea crop, the station was upgraded to the level of the institute. The first black tea processing plant started working in 2001 with a daily processing capacity of one tonne.

Need to Promote Agriculture SMEs is Growing

Small and medium enterprises (SMEs) producing and processing farm products are doing well in Pakistan. These include SMEs that provide agricultural inputs and that are involved in the wholesaling and retailing of agricultural products. A good number of SMEs are exclusive providers of agricultural technology while some exclusively cater to logistics, trade and distribution services in agriculture. These areas offer a lot of scope for growth to agricultural SMEs, according to a senior executive of one of the top five banks. In cotton and rice sectors, SMEs enter at ginning and husking stage. In the livestock sector, cattle breeding and the processing of milk or meat remain separate or at least both functions are not run by SMEs. Some large milk processing companies get supplies from well-knit networks of milkmen, whereas two leading meat processing companies boast of their own cattle farms. The trading of fertilizer, pesticides and insecticides is carried out chiefly by

POSITIVE SIGNS IN BANKING GROWTH

- ◇ By most indications, performance of banking sector in Pakistan continues to be sound. According to the latest Quarterly Performance Review (QPR) of banking sector released by the State Bank of Pakistan, broad-based and robust growth has been witnessed in advances to private sector during the second quarter of CY17, supported by consistent monetary easing and positive prospects of real economy.
- ◇ The asset base of banking sector expanded by 8.3 pc in the second quarter of 2017 which was the highest growth rate recorded in the corresponding quarters since 2008.
- ◇ The relatively high growth of advances at 9.2 pc pushed the advance-to-deposit ratio up to 48.7 pc in April-June 2017 from 47 pc in the second quarter of 2016.
- ◇ Key financing demand came from chemical and pharmaceutical, production and transmission of energy and agri-business sectors.
- ◇ The deposits of banking sector increased by 6.5 pc (Rs 764.3 bn) in the second quarter of 2017 compared with a growth of 6.8 pc in the corresponding period a year earlier.
- ◇ The asset quality of banking sector has improved further. Gross Non-Performing Loans (NPLs) ratio has fallen to 9.3 pc as of end June, 2017 from 9.9 pc as of end March, 2017 and 11.1 pc a year earlier.



Economic Letter

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Page No. 03

Volume 12, Issue No. 37 | Date: September 15, 2017

manufacturing firms through their agents. But some SMEs also trade farm inputs, both local and imported.

Pakistani Youth Optimistic, Says Report

Pakistan's consumer confidence is maintained above the optimism baseline (100) at a score of 102, according to findings of the Nielsen Global Survey of Consumer Confidence and Spending Intentions for the second quarter of this year. With 14 per cent of the respondents earning around Rs50,000 per month, 41pc individuals thought job prospects in the country were not very good while 39pc thought they were. It is interesting to note that at the same time 64pc respondents were confident about the state of their personal finances. Of the total monthly budget, food and beverages claimed the highest percentage of spending, followed by education and housing. And while 64pc claimed to not have changed their spending pattern to save on household expenses, most respondents spent their spare cash on new clothes, followed by saving. Africa and the Middle East saw the greatest change globally, with the region's consumer confidence index rising five points to a score of 88. Regionally, all confidence indicators improved in the second quarter of 2017. The findings in the Nielsen survey are based on an online methodology with a caveat that the research provides a perspective only on the habits of existing internet users, not total populations.

KALEIDOSCOPE

What the names stand for

Kawasaki

Shozo Kawasaki is the founder of the brand and the company was named Kawasaki after his family name. This is in keeping with the classic tradition of the Japanese names, 'kawa' means river and 'saki' means cape.

POSITIVE SIGNS IN BANKING GROWTH

- ◇ Investments have increased by 5.6 pc and a continuous rise in the holdings of government securities has strengthened liquidity position of banking sector.
- ◇ Capital Adequacy Ratio (CAR) at 15.6 pc was also well above the minimum required level of 10.65 pc.
- ◇ The latest QPR shows that most of the indicators of banking industry are in good shape and have behaved according to the exigency of situation.
- ◇ Gross advances to private sector have increased reasonably well and this seems to be well connected with economic activity as growth in major segments of LSM coincides with increased borrowings by the relevant sectors of economy.
- ◇ The current momentum of growth in advances may also be due to a low interest rate.
- ◇ Profits of banking sector have somehow declined but are expected to remain modest in near future.
- ◇ The major indicators of banking sector indicate generally healthy trends, some low-to-moderate level risks are appearing on the horizon.
- ◇ A remarkable feature is that the smallest eight banks had an advance to deposit ratio of 77.6 pc. This shows that smaller banks are more willing to extend credit to private sector as opposed to their larger counterparts.



Economic Letter

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Page No. 04

Volume 12, Issue No. 37 | Date: September 15, 2017

INTERNATIONAL ARENA

Europe's Bank Regulators on Expensive Hiring Spree Before Brexit

Europe's regulators are competing to hire risk specialists to prepare for an influx of banks escaping Brexit, nudging up salaries and stretching staff budgets. Wall Street giants Goldman Sachs, Citigroup and Morgan Stanley, which have big operations in London, intend to expand in the European Union after Britain's departure. Germany's financial regulator, Bafin, and the French and Irish central banks intend to hire dozens of new recruits in the coming year, according to officials. The European Central Bank, which has overall responsibility for supervising banks, is also seeking new staff. But filling such positions is difficult, partly because risk specialists are in hot demand. A central bank spokeswoman declined to say why it had not hired more staff. But Philip Lane, its governor, spoke of the challenge of hiring in a newspaper interview in July. The majority of its employees earn between 25,000 euros and 75,000 euros (\$90,400). Starting salaries for risk managers at an investment bank are around \$52,600. With the clock ticking to Britain's EU departure by April 2019, banks are already beginning to migrate from London. The shift will give Europe's regulators a greater say over global finance after Brexit even though they are still dealing with the regulatory fallout from the last financial crash. A survey of risk experts by recruiter Barclay Simpson found that salaries for European market risk specialists at an investment bank began at 40,000 pounds (\$52,600) for graduates and climbed above 400,000 pounds for top managers. By comparison, Daniele Nouy, the ECB's top regulator, earned just 278,000 euros (\$335,300) last year.

Strong Euro no Problem

The European Central Bank (ECB) believes its long-term support to the eurozone economy will overcome the strong euro's braking effect on inflation, board member Benoit Coeure a couple of days back. It has been maintained that compared with previous central bank interventions, monetary policy will remain more accommodative for longer compensating for the impact of the euro's appreciation.

The ECB's historic low interest rates and 60 bn euros (\$72bn) of monthly bond purchases are designed to boost growth in the 19-nation single currency area, driving inflation towards policymakers' goal of just under 2.0 per cent. Some observers have sounded the alarm as the euro appreciates against the dollar.

IFC to Raise \$ 1 bn More

The World Bank's International Finance Corporation (IFC) aims to raise an extra \$1 bn within a year as part of a planned \$5bn infrastructure investment fund, an official said, with China's Belt and Road programme offering more opportunities. IFC this year raised \$1.1 bn from Allianz and Eastspring Investments, the Asian asset management business of Prudential (PRU. L), IFC Chief Investment Officer for infrastructure and natural resources said. The fund-raising plans are part of IFC's so-called Managed Co-Lending Portfolio Programme (MCLPP) that seeks to raise a little over \$5bn from investors by 2021, a large part of which is expected to be deployed for Belt and Road related projects. Launched 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. A major part of the private investments in the 68 countries officially linked to President Xi Jinping's signature foreign policy are expected to be in the energy and infrastructure sectors, analysts have said.

Bahrain Tightens Islamic Finance Rules

Bahrain is tightening its rules for Islamic banks by requiring all of them to undergo independent, external audits to certify they are following Muslim laws known as Shariah. The move, announced by the central bank recently, could make Bahrain among the strictest jurisdictions for Islamic banking and help Manama maintain prominence in the industry, which it helped to pioneer, against competition from centres such as Dubai and Kuala Lumpur. Islamic banks in the Gulf have traditionally used in-house boards of scholars to determine whether their products and operations obey Shariah, which includes rules such as bans on interest payments and pure monetary speculation.



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Page No. 05

Volume 12, Issue No. 37 | Date: September 15, 2017

Some scholars argue this decentralized approach allows more flexibility and diversity, but it is not transparent and is vulnerable to conflicts of interest, since scholars are employed by the banks which they vet. A consultation paper issued by the central bank last year proposed that external audits be annual, but recent statement did not say how often they would occur. The central bank said it would provide guidance later on who would be qualified to conduct external audits. Banks would not be required to make audit results available to the public. Because of Bahrain's prominence in Islamic banking, its decision may add momentum to global pressure for more centralized regulation of the industry. It is expected to serve as an example for the region and the global Islamic banking market, according to a statement of the central bank.

Italy's Dual Currency Schemes May be Long Road to Euro Exit

Italy's main parties are replacing their calls to leave the euro with apparently less radical proposals to flank it with a new currency they say can boost growth and jobs. Yet if any of their schemes are adopted with success they may convince many Italians that the economy can function without the euro, and make an eventual euro exit more likely. It is a big if: previous such plans have been tried around the world with mixed results and it would take a political shift for new ones to be introduced in Italy, but not everyone is ruling it out. It can be done, technically and politically it is perfectly possible, according to Roberto Perotti, economics professor at Milan's Bocconi University. Three of Italy's four largest parties propose introducing a parallel currency after an election due early next year. They have settled on the dual currency proposal as a way of continuing to tap into widespread anti-euro sentiment in Italy while avoiding - at least for now - the huge upheaval and market turmoil that outright euro exit may trigger. The European Commission is concerned by the dual currency talk, and so are financial markets. Investors sold off Italian government bonds last month after Berlusconi said he was in favour of printing a "new lira" for domestic use, to pump money into the economy. Under his plan euros would still be used for all international transactions and by tourists.

Unemployment Rates % of Leading Countries

1. USA	4.4	9. Germany	3.7
2. China	4.0	10. Russia	5.1
3. Japan	2.8	11. Indonesia	5.3
4. Britain	4.4	12. Italy	11.3
5. Canada	6.3	13. Australia	5.7
6. Austria	5.4	14. Turkey	10.2
7. Belgium	7.6	15. South Africa	27.7
8. France	9.8		

Hong Kong, Singapore to Grab Bigger Share of Derivatives Business

Hong Kong and Singapore are seeking to snare a bigger share of the \$540 trillion global derivatives business, taking advantage of tough new UK and European banking rules and uncertainty created by Britain's plans to leave the European Union. Over the past five months, regulators from the two Asian financial centers have been separately holding talks with the Asia Securities Industry and Financial Markets Association (ASIFMA), which represents global lenders in Asia. At the center of the discussions is what kind of regulatory changes would be needed in Hong Kong and Singapore to get more banks to book their derivatives business in one of the two places. If the Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Singapore (MAS) are successful, they could lure billions of dollars of banking business and eventually create thousands of jobs in Asia. These derivatives would include products such as interest rate swaps or foreign exchange derivatives, which allow companies and investors to hedge their exposure to interest rate rises and currency swings. Asia has traditionally accounted for less than 10 pc of the global over-the-counter derivatives market, According to Bank for International Settlements data. Global banks have typically held the majority of Asia-related trades on their European balance sheets, with London being a major booking center for such deals.



Economic Letter

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Page No. 06

Volume 12, Issue No. 37 | Date: September 15, 2017

MANAGEMENT & INFOTECH CORNER

Huawei Wants to Beat Apple in Smartphones

China's Huawei Technologies [HWT.UL] wants to be the world's second-largest maker of smartphones in two years, Richard Yu, chief executive of Huawei's consumer business group said recently. Having made its name as a builder of telecommunications networks, Huawei has been active in the consumer devices market for only a few years and is now the third-biggest smartphone maker after Apple Inc and the world leader in the \$400 bn market, Samsung Electronics. When it was announced four years ago that the company wanted to sell phones, people termed it crazy. When Huanwi said it wanted to sell 100 million phones, it was once again termed crazy. Huawei launched a new premium phone, which will sell for 699 euros apiece. A version developed with Porsche Design will cost 1,395 euros. The phone has a new artificial intelligence feature: It can learn about its user's habits and automatically put the most frequently used apps in easy reach. Huawei was the

world's third-largest smartphone maker in the third quarter with 33.6 million shipped devices, giving it a 9 pc market share, according to research firm Strategy Analytics. Apple was still well ahead with 45.5 million devices, or a 12 pc market share. Samsung was the world leader with 75.3 million shipped devices and a market share of 20.1 pc.

Support for Flexible Work Arrangements

More than 70pc of respondents in a 19-country survey said that flexible working arrangements would be an important aspect of their work lives through the next decade.

Entrepreneurial Ambitions

According to a global study conducted by the INSEAD Emerging Markets Institute, Universum and the HEAD Foundation, 1 in 4 Generation Z workers — or those born after 1997 — is interested in starting a business.

Start a Difficult Conversation

Have you been putting off an important but difficult conversation? Perhaps you just cannot bring yourself to share some negative feedback with a peer. Or may be you are hesitant to admit to something you did wrong. But postponing a potentially awkward conversation usually only makes it worse. In the majority of situations, you should have the difficult conversation as quickly as possible. Just be sure to prepare beforehand. Write down exactly how you plan to broach the subject, and then share your thoughts with someone you trust. Find ways to make your message as objective as possible so that you will be less likely to trigger defensiveness. Remove judgment-laden terms, and stick to the facts. (Adapted from "A Game Plan for That Conversation You've Been Putting Off," by Liane Davey - HBR)

SMILE-A-WHILE

Patient: The problem is that obesity runs in our family.

Doctor: No, the problem is that no one runs in your family

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