



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 12, Issue No. 35 | Date: September 01, 2017

PAKISTAN COMPENDIUM

BANKING SCENARIO

Deposits Folder

Deposits and other accounts of all scheduled banks stood at Rs. 11,582.543 bn after a 0.32 pc decrease over the preceding week's figure of Rs. 11,620.41 bn, according to the weekly statement of position of all scheduled banks for the week ended Aug 11, 2017. Compared with last year's corresponding figure of Rs. 10,144.141 bn, the current week's figure was higher by 14.18 pc.

Imports of Mobile Phone Surge 48 pc

The mobile phone imports surged by 48.41 pc to \$68.57 mn during the first month of this fiscal year compared to \$ 46.20 mn last in July 2016, according to the data of Pakistan Bureau of Statistics (PBS). However, the imports declined by 4.89 pc in July when compared to \$ 72.54 mn in June, the data revealed. Overall telecom imports soared by 53.53 pc to \$ 114.01 mn compared to \$ 74.26 mn in July 2016. The imports of other telecom apparatus (other than mobile phone) also witnessed a tremendous growth of 61.97 pc in July.

Bumper Crop of Rice Expected in Sindh

Rice growers in Sindh expect a bumper crop this season as the province has surpassed the sowing target by up to 80,000 hectares, thanks to timely supplies of irrigation water in early May. The increase in acreage has been witnessed in the upper Sindh, mainly in districts located on the right bank of the Indus river. These areas are fed by non-perennial off-taking canals of Sukkur and Guddu barrages, which supply water only in the summer. Growers say such water supplies are unusual in the right-bank districts, which normally get water flows in late May or early June. Significant increase in acreage has been witnessed in Badin, Jacobabad, Kashmore, Shikarpur and Larkana. All these districts except Badin are located on the right bank of the Indus river. Fahad Panhwar, a rice grower from Jacobabad, says the cost of production varies between Rs25,000 and Rs30,000 per acre while the yield comes to around 75 maunds for irri-6. Farmers then sell it for Rs. 900 per 40 kg.

MARKETS AT A GLANCE

Rates are taken till Thursday 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 135.00	PKR 124.00	PKR 106.40
ENDING	PKR 136.51	PKR 126.28	PKR 105.50
CHANGE	+1.51	+2.28	-0.9

Pakistan Stock Exchange

	100 Index
BEGINNING	42,641
ENDING	41,206
CHANGE	-1435

Gold Rate

	(10 gm)
BEGINNING	PKR 43,714
ENDING	PKR 44,057
CHANGE	+343



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Dynamics of Date Farming in Khairpur

Pakistan is one of the largest date producers in the world. Most of the country's produce comes from Sindh, where date farming is spread over 75,000 acres. More than 200 varieties of the fruit are grown in the province. Nearly 70 pc of the province's cultivation is done in Khairpur district, around 450 km from Karachi, due to suitable climate. The tremendous growth in date farming took place just after the Sukkur barrage was completed in the mid-1930s as the irrigated soil became more conducive for date palm. Agriculture is central to Khairpur's economy and date farming is the main source of livelihood for the residents. At least 10 people are required to handle 100 date palms when the harvest is in full swing. In the off season, however, the task can be done by two people. Therefore, an estimated 450,000 workers look after the farms in the season for up to at least a month compared to 90,000 during the off season. Nearly 80-90 pc of these dates are dried (called *chuhara*) and then put in gunny bags and taken to the market. However, a large quantity of dried dates is exported to our neighboring countries. The remaining soft dates are in demand in both local as well as international markets. The export market of dates requires compliance of global food standards, hence it has different dynamics. Pakistan exported dates worth \$28.4 mn during the five months till May, mostly to India, the United States, Britain and the European Union. Exports in 2016 stood at \$99.6mn.

Where is the Private Sector's Money Going?

Pakistan's economy has been on a growth trajectory since 2013, with GDP expanding by 5.3 pc during the last financial year. The growth attained last year was the highest in one decade in spite of a slowdown in industrial growth and lackluster performance of large-scale manufacturing. So what has driven growth in the last four years? The primary driver of growth, the government admitted in the Economic Survey of Pakistan 2016-17, has been domestic consumption. The support to GDP growth mainly came from increased domestic consumption. Low inflation, higher income levels of both farmers and (urban) middleclass (have) bolstered consumption spending in the economy, it noted. On the other hand, investment, particularly private investment, played a mere supportive role instead of being the lead

driver of growth. For example, consumption shared 7.9 percentage points to GDP last fiscal year, up from 6.2 points a year ago. This compares with net investment contribution to growth of just 1.3 percentage points, up slightly from 1.0 point the previous year. Little wonder then that exports' contribution to growth shrank 3.5 percentage points.

LIMELIGHT

- ◇ The SECP has provided relief of over Rs. 5.35 mn to policy holders through complaints resolution from concluded adjudication proceedings against six insurance companies in July and August, 2017.
- ◇ Pakistan's total liquid foreign exchange reserves amounted to \$ 20 bn on August 18, 2017 up \$104.5 mn or 0.52 pc from a week ago, the SBP said.
- ◇ Outstanding financing for small and medium enterprises increased 27 pc to Rs. 380 bn in 2016-2017, said a report by the SBP.
- ◇ According to SBP data, the private sector's net credit rose 19.3 pc year-on-year to Rs. 4.683 trillion in the first month of the current fiscal year in July on growing demand of funds mainly in manufacturing sector.



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INTERNATIONAL ARENA

Fiat Chrysler joining BMW-led group

Italian-American automaker Fiat Chrysler said recently it was joining a BMW-led group to develop fully self-driving vehicles, the latest tie-up in an industry racing to get ready for the cars of the future. German luxury carmaker BMW began working on the project with US computer chip giant Intel and the hi-tech firm Mobileye last year. The group aims to have their first fully automated cars in production by 2021. German car parts supplier Continental and UK-based auto-equipment maker Delphi have also since joined the collaboration. Fiat said teaming up with partners would allow it to benefit from economies of scale, while bringing its own engineering expertise, sales volumes and strong presence in North America to the table. The BMW-led group plans to put 40 autonomous test vehicles on the road by the end of the year. Traditional carmakers are scrambling to join the race launched by Silicon Valley firms like Google, Uber or Tesla to create a vehicle that can drive itself in busy, unpredictable urban environments.

Germany's Budget Surplus

The German state notched up a record budget surplus between January and June, official figures showed, as Europe's largest economy continued to grow strongly. All the levels of government — federal, regional and municipal — combined took in 18.3 bn euros (\$21.6 bn) more than they spent, data from federal statistics authority Destatis showed. Government revenue from taxes, social contributions and other sources amounted to 724 bn euros, a 4.3 pc increase on the same period in 2016. Spending grew at the same pace, adding 4.3 pc to reach 705 bn euros. With gross domestic product in the first half of the year at 1.6 tn euros, the budget surplus stood at around 1.1 pc of GDP. Federal, regional and municipal budgets continued to benefit from favorable developments in the labor market and in the economy, as well as a restrained spending policy, Destatis commented. But the authority cautioned that the first-half figures should not be

extrapolated to the whole year, as one-off events can have a big impact on government finances. Allies, neighbors and international institutions frequently criticize Germany for its reluctance to increase investments at home, which some argue could help reduce its mammoth trade surpluses. The government took in almost 24 bn euros more than it spent over the full year in 2016. In a separate release, the statisticians confirmed that German gross domestic product had grown 0.6 pc in the second quarter, a slight slowdown from the first three months' 0.7 pc expansion. Big increases in both household and state spending between April and June as well as higher investments in capital goods and construction meant that domestic forces were the most important for growth. Meanwhile, imports expanded faster than exports, at 1.7 pc compared with 0.7 pc according to preliminary figures, slightly weakening the contribution to GDP growth from the balance of trade. So far, strong growth in the first half has not prompted Berlin to revise its full-year GDP forecast upwards from a cautious 1.5 pc prediction.

Ireland Stays Top Euro Zone Center for Financial Special Purpose Vehicles

Ireland remains euro zone's largest center for financial special purpose vehicles, according to data from the European Central Bank (ECB) showed recently, placing it far ahead of closest rival Luxembourg. Such vehicles, many of which are shell companies set up to borrow or invest, had assets, chiefly loans and debt, of 391 bn euros (\$460 bn), which is greater than the Irish economy. The data comes amid a debate in Ireland about its hosting of such conduits, pitting critics, who see a risk to the country's reputation, against those who want to keep them to help attract business from London after Brexit. The ECB data makes the sector in Ireland, as it stood at the end of June, two thirds larger than in Luxembourg and bigger even than in Italy, one of Europe's largest economies. Special purpose vehicles are part of Ireland's offering to financial firms looking to move from London ahead of Britain's departure from the European Union. Ireland already accounts for roughly a fifth of such activity in the euro zone and its dominance of the sector has held steady compared with earlier such surveys.



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The growth in the number of such companies has prompted criticism from Irish lawmakers, however, who fear they could damage the reputation of the country, which was nearly bankrupted by its own financial crash during the credit crunch. Ireland hosted numerous such vehicles before the crash that were linked to banks hit in the turmoil.

Tax Optimization

Companies, which typically have no full-time staff, have been used perfectly legally by U.S. property investors, aircraft leasing firms, European banks and Russian energy groups. Registered as ordinary companies, some vehicles hold loans on say, U.S. property. They counterbalance interest payments received for those loans with the cost of loan notes they have taken to invest, arriving at tax of close to zero.

MANAGEMENT & INFOTECH CORNER

Have a Difficult Conversation

If you are preparing yourself for a conversation that you have labelled 'difficult,' you are more likely to feel nervous, angry or upset. To minimize these negative emotions, reframe how you are thinking about the conversation: You are not saying no to your boss; you are offering up an alternative solution. You are not giving someone negative feedback; you are starting a constructive conversation about their development. Be honest with yourself about how hard the conversation might be, but frame it as constructively as possible. Focus on what you stand to gain. By entering the discussion with an open mind, regardless of your co-worker's stance, you are more likely to find common ground. (Adapted from the *HBR Guide to Dealing with Conflict*, by Amy Gallo, HBR)

Improve Your Finance Skills

Understanding concepts like Ebitda and net present value are important no matter where you sit on the organizational chart. Boost your financial acumen by getting acquainted

with your company's income statement. Your goal is to understand how much your company spends and where it makes money. Reproduce the numbers in a spreadsheet, and then group them into categories of profit and loss. Experiment with the figures on the balance sheet by going through a series of 'what if' scenarios. What if prices were lower? What if revenue was higher? Convert the numbers to percentages so that you can visualize the breakdown of revenue and expenditures more easily. (Adapted from *How to Improve Your Finance Skills {Even If You Hate Numbers}*, by Rebecca Knight, HBR.)

KALEIDOSCOPE

Longest Road in the World

The Pan-American Highway is the world's longest motorable road, according to Guinness Book of World Records. The Highway links almost all nations in North and South America except for a stretch of 100 km called the Darien Gap, a forest and swampland. Length of highway: 29,825 miles (48,000 kilometers) Topping the list of 10 longest highways in the world by several country miles, the length of this highway can be judged from the fact that it passes through different climates and areas, from jungles to deserts.

World's Longest Railway

The Trans-Siberian Railway, spanning a length of over 10,000 km, is the longest railway line in the world. It connects Russian western and southern ports, as well as railway gates to Europe (St. Petersburg, Kaliningrad, Novorossiysk) and Asia (Vladivostok, Nakhodka, Vanino, Zabaykalsk). The traditional Moscow-to-Vladivostok route takes seven days to make its 6,152 mile journey.



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Underestimating the Solar Industry's Momentum

Analysts have been underestimating the expansion of solar energy for nearly two decades, scientists report in a new study revealed recently. And that could be a serious problem for the industry and, maybe, the planet. If policymakers believe solar is growing more slowly than it actually is, they may be less likely to prioritize the kinds of research and development that will help better integrate renewables onto the grid, such as improving battery storage technology. This could lead us to continue relying on more carbon-intensive energy sources. The most important risk is that the regulatory environment does not adapt in time to a rising share in solar energy, according to lead study author Felix Creutzig, a professor at the Mercator Research Institute on Global Commons and Climate Change, based in Germany. The paper comes just a day after the release of a much-anticipated study on the electric grid. The new paper, in the journal Nature Energy, points out that the deployment of solar energy has consistently outperformed the predictions made by so-called integrated assessment models, which are commonly used to evaluate the ways different social, economic and technological factors might mitigate climate change, since at least the year 1998. The researchers outline a number of reasons for the discrepancy. For one thing, models have often failed to account for the policies different nations have put in place to speed the expansion of renewable energy. Additionally, the study notes, the costs of solar panels have been falling faster than expected. And the models may have also been overly optimistic in their assumptions about the expansion of other low-carbon technologies, such as nuclear power or carbon capture and storage technology.

Uber Chooses Expedia Chief as New CEO

Expedia chief Dara Khosrowshahi has been chosen to replace ousted Travis Kalanick as the next CEO at Uber, The New York Times reported recently, as the ride-hailing giant looks to

move past a rough patch. Khosrowshahi emerged as the leader among three finalists for the job during company board meetings over the weekend. Hewlett-Packard Enterprise chief Meg Whitman had been seen as the favorite, according to several media outlets, but the Times said the situation changed in the 48 - year - old Tehran - born Khosrowshahi's favor. Former GE CEO Jeff Immelt, whose name was on the shortlist, removed himself from the running for the top job.

Amazon Lets Customers Try on Clothes

Prime Wardrobe, a new service from Amazon.com, allows people to order up to 15 items of clothing and keep them for seven days. Customers can then return the clothes that they do not want for free.

Lincoln in China

In an effort to make their cars more appealing to Chinese buyers, designers at Lincoln, Ford's luxury arm, took into account the fact that vehicles would be used as social spaces to entertain clients. Lincoln's design efforts paid off: Last year, sales in China tripled.

The Power of Social Media

The beauty brand, L'Oréal, recently hired 15 'social media influencers' so that they can upload video tutorials about the brand's products and cover behind-the-scenes beauty events.

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