



Economic Letter

a weekly publication of The Institute of Bankers Pakistan*

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Volume 14, Issue No. 39 | Date: September 27, 2019

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

PAKISTAN OVERVIEW

IMF Delegation Calls on Governor SBP

A delegation of the International Monetary Fund (IMF) led by the Director Middle East and Central Asia Department, Mr. Jihad Azour, called on the Governor State Bank of Pakistan Dr. Reza Baqir recently in Karachi. He was accompanied among others by the IMF Mission Chief to Pakistan, Mr. Ernesto Ramirez Rigo. The Governor shared SBP's views on the economy with the IMF delegation. He noted that Pakistan has embarked on its home-grown economic reform program and said that he looked forward to a continuing fruitful partnership with the IMF and other stakeholders in the international financial community to support this reform program. He observed that the transition to a market-based exchange rate system, building foreign exchange reserves, and bringing down inflation were key elements of the SBP's reform program to restore financial stability and lay the foundations for sustainable and shared growth. The initial results from the reform program were encouraging. The earlier volatility in the exchange market and associated uncertainty had subsided and confidence was slowly improving. Inflation had risen due to the economic imbalances accumulated from previous years but inflationary pressures were expected to recede in the second half of the current fiscal year. Nevertheless, the Governor emphasized that these were the early stages of the reform process and it was essential to sustain the reform momentum and to keep policies focused on securing stability and promoting sustainable and shared growth.

Mobile Phone Imports Soar 98pc

Mobile phone import bill, on a month-on-month basis, in July doubled in terms of value from \$37.3 mn to \$73.8mn (97.85pc) despite a comparatively smaller increase of 11pc in the total number of units brought in to the country. The massive increase in mobile phone imports bill was unanticipated given the fact that inward shipments of handsets had consistently been declining during the last fiscal year amid sharp currency depreciation and hefty taxes and regulatory duties imposed by the government as part of its plan to compress demand in the wake of a balance-of-payments crisis. Cumulatively, mobile phone import bill dropped by almost a fifth from \$741.8 mn in FY18 to \$596.4 mn in FY19, according to data published by the State Bank of Pakistan (SBP). On a year-on-year basis, the handset imports in July rose by above 14pc (\$64.6 mn) compared to same month last year. Similarly, the data on Pakistan's mobile phones market compiled by Canalys — a leading global technology market firm shows mobile phone imports shrank significantly in terms of number of handsets from the last financial year. From a monthly average of 1.1 mn phones brought into the country during FY18, the number decreased to the monthly average of 0.8 mn in FY19.

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	13.66	13.91
ENDING	13.65	13.90
CHANGE	-0.01	-0.01

FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 195.50	PKR 173.50	PKR 156.30
ENDING	PKR 194.00	PKR 171.00	PKR 156.40
CHANGE	-1.5	-2.5	+0.1

PAKISTAN STOCK EXCHANGE

100 Index

STARTING	32,111
ENDING	32,070
CHANGE	-41

GOLD RATE

(10 gm)

STARTING	PKR 74,803
ENDING	PKR 74,931
CHANGE	+128



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Landmark Initiatives

- › Pakistan becomes the first country to adopt the Sustainable Development Goals (SDGs) as part of its national development agenda through a National Assembly Resolution in February 2016.
- › Pakistan Launches Sehat Sahulat Program in 2019 to provide health insurance for those in need.
- › Pakistan scales up the Billion Tree Planting Drive, the first Bonn Challenge pledge to meet and surpass its target to the 10 bn Tree Tsunami that aims to increase plantation across the country over five years.

Mango Exports Exceed Target

Mango exports fetched \$80 mn so far this season due to better price in world markets. Patron of Pakistan Fruit and Vegetable Exporters Association (PFVA) Waheed Ahmed said 115,000 tonnes of the fruit were exported by Sept 15 exceeding the 100,000-tonne target after a gap of four years. Despite climate challenges, the price of mango remained stable at Rs. 75-85 per kg at the farm level while the exporters focused more on quality and packaging standards, he said, adding that extra attention to UAE, Iran, Afghanistan and Europe and the UK markets also yielded results.

Bike Sales Skid

Bike sales showed contrasting trend as some assemblers, after enjoying a good FY19, faced precarious sales during the first two months of FY20 while for many manufacturers the current fiscal year is almost as volatile as the preceding one. The country's total bike production fell by 13pc to 2.459 mn units in FY19 from 2.825 mn units in FY18, showed Pakistan Bureau of Statistics (PBS) data. Amid claims of achieving 94pc localization in 70cc segment and over 50pc in higher engine power, the assemblers had given

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

REAL SECTOR (GROWTH IN %)	FY 2018	FY 2019_p	-	-
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 2019_{pa}	JUL - AUG 19_{pa}	June 2019	AUG 2019
NATIONAL	6.8	9.4	8.4	10.5
URBAN	7.1	9.7	8.7	10.6
RURAL	6.3	9.1	7.9	10.3
FOOD INFLATION-URBAN/RURAL	4.7/4.8	9.9/11.0	7.9/9.3	11.9/12.6
MONETARY SECTOR (IN BILLION Rs.)	FY 2018	FY 2019_p	AUG 2019_R	
CURRENCY IN CIRCULATION	476.5 BN	562.2 BN	447.1	-
TOTAL DEPOSITS	935.5 BN	1232.4 BN	-773.1	-
P PROVISIONAL	-	-	-	-
PA PERIOD AVERAGE	-	-	-	-
R Revised	-	-	-	-

SOURCES: PBS/ STATISTICS DEPT. SBP (Sep 2019)



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multiple price shocks to the consumers in the last one and half years blaming high cost of imported parts and raw material on falling rupee value against the dollar to Rs. 158 from Rs. 123 in August 2018 and Rs. 110 in January 2018.

CAD Plummet 55pc in July-August

The country's current account deficit (CAD) narrowed by massive 54.66pc to \$1.3 bn, or 2.8pc of GDP, during the July-August period of FY20 as the overall economic slowdown sapped imports. Data published by the State Bank of Pakistan (SBP) on Thursday showed that CAD shrank by 14.22pc year-on-year to \$641 mn in August against \$720 mn in the same month last year. The raising of duties on various imports coupled with the overall economic slowdown have helped the government to bring down the CAD substantially during the last 14 months. In FY19 the CAD fell by around 30pc to \$12.756 bn from decade-high of \$18.13 bn in FY18.

Regulations for Exchange Traded Funds Amended

The Securities and Exchange Policy Board (SEPB) recently approved amendments to the Exchange Traded Funds Regulations, which have been revamped to add flexibility for fund managers to appoint separate intermediaries for performing the functions of market maker and authorized participant. This would enable fund managers for on-boarding market makers easily which are now subject to rationalized regulations that aim to reduce cumbersome requirements and decrease the cost of doing business for market makers, said a press release of the Securities and Exchange Commission of Pakistan (SECP).

FDI in July-August

Foreign direct investment (FDI) into the country amounted to \$156.7 mn. Moreover, on a month-on-month basis, the FDI inflows in August declined by a massive 57.8pc to \$83.4 mn from \$197.9 mn in August 2018. Cumulatively, the total foreign investment during the two months under review grew by 6.7pc to \$264 mn compared to \$247 mn during the corresponding period last year. The SBP data showed that inflows from China during July-August amounted to \$28.9 mn whereas inflows during August clocked in at \$33.4 mn. United Kingdom emerged as the second leading investor in the country pouring \$11.7 mn, followed by UAE with \$5.9

mn and Malaysia \$5.4 mn. The oil and gas exploration sector remained the pick of foreign investors during July-August period with inflows of \$21.3 mn, followed by \$16.4 mn in transport, \$14.9 mn in electrical machinery and \$15.3 mn in textile in the textile sector. However, the data for Foreign Portfolio Investment (FPI) rose by a massive 182.8pc to \$107.3 mn against an outflow of \$129.6 mn during the same period last year.

FBR's Success With Tax App

Within two days of its launch, the mobile app for simplified return has received 98 salary returns digitally and thousands of downloads of the app, indicating its success according to the Federal Board of Revenue (FBR). The app "Tax Asaan" has been operational since (Sept 16) with its scope limited to the salary income of an individual. The FBR chairman Shabbar Zaidi said the tax collection body had updated the app for income tax return filing for salaried persons only, claiming it would greatly assist taxpayers in the filing of their returns without any trouble.

Cotton Production Falls by 26pc

The country's cotton output faces a shortfall of 0.664 mn bales or 26.41pc compared to same period last year, according to official figures released recently. The production shortfall, recorded at the initial period of the season (2019-20) up to Sept 15, is unlikely to be fulfilled during the remaining period. It will directly impact country's GDP and also put pressure on country's foreign exchange reserves because huge quantity of around 3-4 mn cotton bales will have to be imported to meet the shortfall it was added. Further, Pakistan Cotton Ginners' Association (PCGA) Chairman Mian Mahmood Ahmed said the promised incentives to cotton growers for achieving higher cotton production target were never released by the government.

SNIPS

Video Star Rising

TikTok, a video app that is available in 150 countries and in 75 languages, has reached 1 bn downloads.



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INTERNATIONAL VISTA

Half of Lost Saudi Oil to Remain Offline For a Month

Around 3 mn barrels per day of Saudi oil will remain offline for a month, about half the production halted by the weekend's devastating attacks on key crude facilities, S&P Platts said recently. The report came as oil prices dipped slightly following record gains as uncertainty prevailed on global markets over when the OPEC kingpin will be able to restore lost production. Strikes on Abqaiq — the world's largest processing plant and the Khurais oilfield have knocked out 5.7 mn barrels per day (mbpd), or 6pc of global production.

Saudi Aramco Gives 9 Banks Top Roles for IPO

Saudi Aramco has hired nine banks as joint global coordinators to lead its planned initial public offering (IPO), slated to be the world's largest, sources familiar with the matter told recently. The mandates have been heavily sought by the world's biggest investment banks for a transaction which, according to Saudi Crown Prince's initial plans, could generate around \$100 bn for Saudi Arabia's state coffers. The kingdom plans to list 1pc of the state oil giant - the world's largest oil company - on the Riyadh stock exchange before the end of this year and another 1pc in 2020, sources told recently, as initial steps ahead of a public sale of around 5pc of Aramco. Aramco has selected JPMorgan, Morgan Stanley and Saudi Arabia's National Commercial Bank, which were previously working on the share sale before it was paused last year, the sources said. It has also chosen Bank of America Merrill Lynch, Goldman Sachs, Credit Suisse, Citi, HSBC and Saudi Arabia's Samba, they added.

Yahoo Japan Offers to Buy Control of Zozo

Yahoo Japan Corp said recently it aims to buy 50.1pc online fashion retailer Zozo Inc for about 400 bn Yen (\$3.70 bn), joining forces to better compete with rivals such as Amazon.com Inc. and Rakuten Inc. Zozo founder Yusaku Maezawa will sell around 30pc of the retailer in a tender offer to Yahoo Japan, leaving him with a stake of about 6pc, and step down as CEO of the company, which has struggled following a series of botched initiatives. Yahoo Japan's

offer price of 2,620 Yen per share is a premium of around 21pc compared to recent undisturbed closing price. Zozo shares jumped as much 19pc in early Tokyo trading with Yahoo Japan shares up around 4pc. Zozo has a market value of around 680 bn Yen, according to Refinitiv data. The deal would give Maezawa a windfall or around \$2.3 bn.

Bolivia Gears Up for Rising Lithium Demand

Over 3,600 meters above sea level on white plain of the world's largest salt flat, landlocked Bolivia is dramatically ramping up production of lithium to cope with soaring global demand for the prized electric-battery metal. Bolivia, among the poorest countries in South America, sits on one of the world's largest lithium reserves, at the Salar de Uyuni ready to take full advantage in the coming age of the electric car. But while it sits at the apex of South America's "lithium triangle," along with Chile and Argentina, Bolivia has not had the capacity to produce the metal on a commercial scale. That will change when its Llipi plant comes online in 2020. The factory will have an annual production capacity of 15,000 tons of lithium carbonate.

Egypt's Economy to Grow by 8pc by 2022

Egypt expects its economy to grow by an annual rate of 8pc by 2022 as the government improves the investment climate, Prime Minister Mostafa Madbouly said recently. The Egyptian government expects growth to gradually pick up to 8pc by 2022," he told a meeting of Arab central bank governors. In July, he said GDP grew 5.6pc in the 2018/19 fiscal year. Barring the oil industry, Egypt's economy has struggled to attract foreign investors since the 2011 uprising that ended Hosni Mubarak's 30-year rule.

No-Deal BREXIT if UK Does Not Get Serious: EU

The European Union's top officials handling troublesome BREXIT talks warned recently the risk of a no-deal exit looms large unless British Prime Minister Boris Johnson's government swiftly offers concrete proposals. The risk of a no deal remains very real. "That will maybe be the choice of the United Kingdom but never the choice of the European Union," European Commission chief Jean-Claude Juncker told the European Parliament in Strasbourg. If that happens, "the consequences are much more serious, much more



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numerous than you want to say," added EU chief BREXIT negotiator Michel Barnier. The warnings came two days after Juncker and British Prime Minister met in Luxembourg for talks and just six weeks before Britain is set to exit the bloc.

Swiss-Based Libra Will Have to Meet Tough US Standards, Says US Treasury

The Facebook-led Libra cryptocurrency project must meet the highest standards for combating money laundering and terrorism financing if it is to get off the ground, a senior US Treasury official said recently. Any cryptocurrency project, including Geneva-based Libra, operating in all or substantial parts of the United States will clearly have to satisfy US regulatory standards, US Under Secretary of Terrorism and Financial Intelligence Sigal Mandelker told reporters in the Swiss capital. "Whether it's bitcoin, Ethereum, Libra, our message is the same to all of these companies: anti-money laundering and combating the financing of terrorism has to be built into your design from the get-go," Mandelker said.

China Removes US Products From Tariffs List

China said it would spare a number of US products from punitive tariffs in what is seen as an olive branch by Beijing in the protracted trade war ahead of high-level talks next month. However, the goods do not include big-ticket agricultural items that could be crucial to the ultimate success of any agreement between the two sides, whose stand-off is dragging on the global economy. The exemptions will become effective on September 17 and be valid for a year, according to the Customs Tariff Commission of the State Council, which released two lists that include seafood products and anti-cancer drugs. The lists mark the first time Beijing has announced products to be excluded from tariffs. Other categories that will become exempt include alfalfa pellets, fish feed, medical linear accelerators and mould release agents, while the commission said it was also considering further exemptions.

MANAGEMENT OUTLOOK

Social Media Firms Removing Violent Content Faster

Major US social media firms told a Senate panel they are doing more to prevent violent or extremist content from online platforms in the wake of several high-profile incidents, focusing on using more technological tools to act faster. Critics say too many violent videos or posts that back extremist groups supporting terrorism are not immediately removed from social media websites. Facebook's head of global policy management, Monika Bickert, told the Senate Commerce Committee its software detection systems have "reduced the average time it takes for our AI to find a violation on Facebook Live to 12 seconds, a 90pc reduction in our average detection time from a few months ago." In May, Facebook Inc. said it would temporarily block users who break its rules from broadcasting.

It Is Actually Helpful to Criticize Ideas When Brainstorming

You have probably heard that when you are brainstorming, criticizing others' ideas will kill creativity and enthusiasm. But the truth is, when done right, criticism can encourage collaboration and help your team get to better ideas. Here are how. If you see a weakness in something your colleagues have proposed, do not simply say, "This will never work." Acknowledge their idea, explain the problem with it and then propose an improvement. Someone else should do the same for your suggestion, and then another colleague should do the same for that person's idea. Similarly, when you like someone's ideas, do not just say, "Great suggestion!" and take it as is. Look for ways to collectively build on the idea and make it even better. This kind of constructive interaction can create a deep cycle of critical feedback that leads to breakthroughs. That's why you are brainstorming, after all — to get to great ideas together. (This tip is adapted from *Why Criticism Is Good for Creativity*, by Roberto Verganti and Don Norman-HBR.)

Editor: Rafi Ahmed | Deputy Editor: Shahla Naqvi | Designed by: M. Jahangir Ishaq | Email: Publications@ibp.org.pk

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