



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan\*

Page No. 01

Volume 14, Issue No. 36 | Date: September 06, 2019

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

## PAKISTAN OVERVIEW

### Simplified Tax Regime Approved

In a bid to attract portfolio investments, the Economic Coordination Committee (ECC) of the Cabinet recently offered a simple tax regime to non-resident companies for making investments in the local debt market with a view to deepen the country's capital markets. As per the new regime, government has simplified the processes for non-resident companies having no permanent establishment in Pakistan to invest big funds in the stock market and money market by offering simple regime.

### Banks Attract Rs. 690 bn in Fresh Deposits

Improved returns following a sustained increased in policy rate has helped attract fresh rupee deposits of Rs.690 bn this year for banks, while reducing the appetite of greenback deposits for domestic investors. Bankers said deposits of rupee have proved attractive as compared to those in dollars since the two currencies have substantial difference in returns. The State Bank of Pakistan has been increasing the interest rates for more than a year as they currently stand at 13.25pc, making rupee deposits an attractive avenue. Between January and July, rupee deposits of banks have increased by Rs. 690 bn to Rs. 13.747 tr, according to latest data of the State Bank of Pakistan.

### Divestment

The Privatization Commission decided last week to initiate the sell-off process for 10 more entities, including three power-sector units and two listed blue-chip companies i.e. Oil and Gas Development Company (OGDC) and Pakistan Petroleum Ltd (PPL). The Privatization Commission also released two separate advertisements seeking Expression of Interest (EoIs). The first one was in relation to the appointment of a financial adviser for the divestment of up to 10pc shareholding in PPL currently held by the government. The second one related to the appointment of a financial advisory consortium for the divestment of 7pc government-held shares in OGDC.

### Pakistan's Deforestation Rate World's Highest

The country's deforestation rate has been estimated between 0.2 and 0.5pc per annum, the highest in the world, accounting for 4 to 6pc decline in its wood biomass per annum, according to a LHC verdict. Authored by Justice Jawad Hasan, the judgement, while citing a research report, observed that the natural forest cover had reduced from 3.59 mn hectares to 3.32 mn hectares at an average rate of 27,000 hectares annually. Citing the 2010 research report by the National Environment Information System (NEIMS), the judgement feared that the natural resources were decreasing at such an alarming speed that all the forest area would be consumed within the next five years. NEIMS is a project of the United

## MARKETS AT A GLANCE

Rates are taken till Friday 1:00 pm\*

### MONETARY POLICY RATE

Effective from July 16, 2109 - 13.25pc

### KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	13.83	14.08
ENDING	13.79	14.04
CHANGE	-0.04	-0.04

### FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 191.00	PKR 173.00	PKR 156.50
ENDING	PKR 192.00	PKR 172.00	PKR 155.50
CHANGE	+1.00	-1.00	-1.00

### PAKISTAN STOCK EXCHANGE

#### 100 Index

STARTING	29,672
ENDING	30,467
CHANGE	+795

### GOLD RATE

(10 gm)

STARTING	PKR 77,160
ENDING	PKR 76,303
CHANGE	-857



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Page No. 02

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Nations Development Program (UNDP) detailing the environment, biodiversity and ecological zones in Pakistan from forest to mountains and threatened flora and fauna.

## Tr-Actors

After experiencing a dismal FY19, Fiat tractor sales recovered in the first month of the current fiscal year, while Massey Ferguson (Millat) was still in hot waters. Fiat sold 1,122 units in July versus 814 units in July 2018. In 2018-19, its sales plunged by 35pc to 17,993 units. The sales of Massey Ferguson, which already suffered drop to 32,018 units in FY19 from 42,707 units in FY18, could not recover in July 2019 depicting 1,938 units as compared to 3,006 units.

## Hide-n-Seek

Contrary to the perception of a slump in the sacrificial market on the holy occasion this year, initial estimates of the livestock business forwarded by the PTA did not show much deviation from the trend. They projected that 8.1 mn animals were sold for Rs. 242 bn while the value of collected hides was Rs. 5.1 bn on Eid. The average price of a cow hide, according to the data sheet of the PTA, was Rs. 1,400 while those of goat and sheep skins were Rs. 200 and Rs. 100, respectively.

## Truck Sales Boom Years End

Truck assemblers have just survived a dismal year only to find that the next one could yet be worse. In the last fiscal year which ended on June 30, 2019, truck sales fell to less than half of what they had been in the previous year. But starting from July, the trend appears to be deepening. There are five major truck assemblers in Pakistan, but two of them — Hinopak Motors Ltd (HML) and Gandhara Industries Ltd (GIL) — dominate the market. Between them they accounted for 80pc of total truck sales last year. Two years ago, total truck sales in Pakistan were 9,331, which fell to 5,828 in FY19. The

## 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
SOME MONETARY FIGURES	FY 2018	FY 2019*	July 2019***	-
CURRENCY IN CIRCULATION	PKR 476.5 BN	PKR 562.2 BN	PKR 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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Page No. 03

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bulk of the decline was absorbed by HML, which sold 1,808 trucks in FY19 compared to 3,874 units in FY18. This is more than a 50pc drop in one year. Isuzu sales also fell sharply between FY18 and FY19, going from 3,878 to 2,801 units, a decline of 26pc. This is not as steep a fall as what other assemblers have seen in the same period, but a fall nonetheless. In July 2018, GIL sold 261 trucks and 252 units this July. Truck sales are often considered a barometer of economic activity. Unlike cars, trucks are entirely purchased by business enterprises.

## PM Directs Promotion of SMEs

Prime Minister Imran Khan recently directed his economic team that promotion of small and medium enterprises (SMEs) must be focused on to boost economic growth. The prime minister was chairing a meeting called to review the current economic situation and initiatives to improve the business climate, increase exports, reduce current account deficit and stabilizing the economy. It was noted that current fiscal year has commenced on a positive note. Exports have registered an increase and the current account deficit has been reduced by 31pc in July. The international financial institutions such as the World Bank and Asian Development Bank have restored budgetary support. The meeting was informed that ECNEC also approved Rs. 579 bn for the projects in agriculture, water and infrastructure sectors including mass-transit projects for Karachi.

## SNIPS

### The State of Mentorships

A recent study found that only 37pc of professional workers have a mentor.

### A Healthy Office

Around the world, more than 9 in 10 organizations offer their employees some form of health and wellness benefits, according to the International Foundation of Employee Benefit Plans.

### Building Bridges

A survey from the World Bank and the Department of Small and Medium Enterprises of China reports that 54pc of Chinese business-to-business startups have a founder whose responsibility includes building relations with the local government.

## INTERNATIONAL VISTA

### China Lodges WTO Complaint Against US

China recently lodged a complaint against the United States with the World Trade Organization (WTO), one day after new tariffs imposed by Washington on billions of dollars worth of Chinese goods came into force. The world's two biggest economies have been embroiled in a bruising year-long trade war which escalated further when Washington moved ahead with fresh levy hikes which Beijing had promised to match.

### China, US in New Round of Tariffs in Trade War

China and the United States began imposing additional tariffs on each other's goods a couple of days back, the latest escalation in a bruising trade war, despite signs that talks would resume sometime this month. A new round of tariffs took effect soon thereafter with Beijing's levy of 5pc on US crude marking the first time the fuel has been targeted since the world's two largest economies started their trade war more than a year ago. The Trump administration will begin collecting 15pc tariffs on more than \$125 bn in Chinese imports, including smart speakers, Bluetooth headphones and many types of footwear. In retaliation, China started to impose additional tariffs on some of the US goods on a \$75 bn target list. Beijing did not specify the value of the goods that face higher tariffs from last week.

### Could Cryptocurrency Replace Dollar

Bank of England Governor Mark Carney has suggested that a virtual currency, modelled on Facebook's Libra, could one day replace the dollar as king of the foreign exchange market. The BoE chief aired vague proposals for a so-called "Synthetic Hegemonic Currency" at the recent Jackson Hole Symposium of central bankers. According to his brief assessment, the greenback is losing its luster and the outlook for Carney's proposed new digital currency, which would be supported by major central banks around the world. The Dollar has been the world's reference currency since the Bretton Woods agreement in 1944, when various key units were fixed to the value of the greenback. It has retained its global supremacy ever since, thanks to the



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Page No. 04

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economic and political clout of the United States. But that position could change soon. The public sector, in the form of central banks, could instead provide the best support for a new virtual currency, according to Carney. He said it is an open question whether such a new (cryptocurrency) would be best provided by the public sector, perhaps through a network of central bank digital currencies.

## Dubai Drop-off

A slackening in Dubai's economy since 2014 is forecast to carry on through 2022 due to low oil prices, fallout from the US-China trade war and political turmoil, Standard and Poor's said recently. Growth in the Middle East's most diversified economy has also been impacted by a deterioration in the key real estate and tourism sectors, the international ratings agency said in a report. Dubai faces high public debt amounting to around \$124 bn, or 108pc of gross domestic product (GDP), divided between the government and state-linked companies, the report said.

## Tax Return Increase

783,039 new taxpayers filed returns with the tax department as a result of various schemes, including tax amnesty schemes. The government also facilitated people to file their returns by extending the filing deadline a record eight times. In terms of revenue, FBR received Rs2.583bn from these new return filers.

## UK to Lose \$16 bn on EU Exports in Case of No-deal BREXIT

UK could lose at least \$16 bn annually on exports to the European Union if it leaves without a deal and possibly billions more on trade beyond the bloc, UN economists said recently. In a fresh report, the UN Conference on Trade and Development (UNCTAD) found that a loss of preferences in the EU market consequent to a no-deal BREXIT will result in UK export losses of at least \$16 bn (14.6 bn euros), representing 7pc of its overall exports to the bloc. The UNCTAD economists said Britain's total merchandise exports last year stood at around \$450 bn, and that its exports to other EU countries accounted for about half of that amount.

## MANAGEMENT OUTLOOK

### Google Ban on Huawei Mate 30 May Prompt Company to Develop Further

A reported roadblock that Huawei may face for its next flagship smartphone due to US government's blacklisting will instead help drive the Chinese company to further develop its own software ecosystem, which will enable it to gain a leading role in the industry, insiders said. Huawei is scheduled to launch its new Mate 30 line on September 19 in Munich, Germany, Richard Yu, chief executive of Huawei's consumer business group, announced on his Weibo account. It will be Huawei's first major flagship smartphone launch since the Trump administration's ban was imposed in May. The Mate 30 line will support 5G networks and contain the Kirin 990 chipset, which will be unveiled soon at the IFA consumer technology fair in Berlin, according to media reports.

### Managers, Try to Be a Little Less Scary

If you are a manager, your employees are probably intimidated by you — no matter how friendly you are — simply because of your position. And when people are intimidated, they are less likely to offer ideas or point out problems. Keep in mind how your title affects the ways others perceive you. For example, if you ask a tough question about a project, a senior peer might hear a useful critique, while a junior employee might just hear criticism. You should also consider how colleagues view your facial expressions and body language. Is it possible that, say, some employees see your thoughtful frown as an angry scowl? Ask a trusted colleague for feedback about any body language that might be off-putting. You can also try being up front about your tics: "I know that I frown when I am thinking, but that does not mean I am upset." And be mindful of how you react to comments and questions. If you respond negatively when you are challenged, people will be less likely to speak up in the future. (This tip is adapted from *Managers, You're More Intimidating Than You Think*," by Megan Reitz and John Higgins-HBR.)

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