Economic Letter

a weekly publication of The Institute of Bankers Pakistan

Volume 12, Issue No. 20 | Date: May 19, 2017

CHINA PAKISTAN ECONOMIC CORRIDOR (CPEC)

Pakistan's debt and other repayments on China's "Belt and Road" initiative will peak at around $5 bn in 2022, but will be more than offset by transit fees charged on the new transport corridor, says the Pakistan government's chief economist, China has pledged to invest up to $57 bn in Pakistan's rail road and energy infrastructure through its vast modern-day Silk Road" network of trade routes linking Asia with Europe and Africa. Pakistan Chief economist in the Planning Division Javed while giving an interview to Reuters has said debt repayments and profit repatriation from CPEC projects begin in 2019, totalling about S1.5-$1.9bn and rising to $3 $3.5bn by the following year.

The plan lays out in detail what Chinese priorities are in Pakistan for the next decade and a half. Thousands of acres of agricultural land will be leased out to Chinese enterprises to set up demonstration projects in areas ranging from seed varieties to irrigation technology. A full system of monitoring and surveillance will be built in cities from Peshawar to Karachi, with 24 hour-video recordings on roads and busy marketplaces for law and order. A national fibre optic backbone will be built for the country for internet traffic.

The plan envisages a deep and broad-based penetration of most sectors of Pakistan's economy as well as its society by Chinese enterprises and culture. Its scope has no precedent in Pakistan's history in terms of how far it opens up the domestic economy to participation by foreign enterprises. In some areas the plan seeks to build on a market presence already established by Chinese enterprises, e.g. Haier in household appliances, China Mobile and Huawei in telecommunications and China Metallurgical Group Corporation (MCC) in mining and minerals.

In textiles and garments, cement and building materials, fertilizer and agricultural technologies, it calls for building the infrastructure and a supporting policy environment to facilitate fresh entry. A key element in this is the creation of special economic zones, which must meet specified conditions.

Ten key areas for engagement are identified along with seventeen specific projects. They include the construction of one NPK fertilizer plant as a starting point with an annual output of 800,000 tons. Enterprises will be inducted to lease farm implements, like tractors, efficient plant protection machinery, efficient energy saving pump equipment, precision fertilization drip irrigation equipment

MARKETS AT A GLANCE

Rates are taken till 05:00pm

KIBOR (6 months)

	Bid%	offer%
BEGINING	5.90	6.15
ENDING	5.90	6.15
CHANGE	+0.00	+0.00

Foreign Exchange Rates

	GBP(£)	EURO(€)	USD($)
BEGINING	PKR 136.00	PKR 114.60	PKR 105.70
ENDING	PKR 137.20	PKR 117.00	PKR 105.80
CHANGE	+1.2	+2.4	+0.1

Pakistan Stock Exchange

	100 Index
BEGINING	51,750
ENDING	50,742
CHANGE	+1008

Gold Rate

	(10 gm)
BEGINING	PKR 42,685
ENDING	PKR 43,242
CHANGE	+557

Economic Letter
a weekly publication of The Institute of Bankers Pakistan
Volume 12, Issue No. 20 | Date: May 19, 2017

and planting and harvesting machinery. Meat processing plants in Sukkur are planned with annual output of 200,000 tons per year, and two demonstration plants processing 200,000 tons of milk per year. In crops, demonstration projects of more than 6,500 acres will be set up for high yield seeds and irrigation, mostly in Punjab. In transport and storage, the plan aims to build a nationwide logistics network, and enlarge the warehousing and distribution network between major cities of Pakistan with a focus on grains, vegetables and fruits. Storage bases will be built first in Islamabad and Gwadar in the first phase.

Islamabad, Lahore and Gwadar will see a vegetable processing plant, with annual output of 20,000 tons, fruit juice and jam plant of 10,000 tons and grain processing of 1 million tons. A cotton processing plant is also planned initially, with output of 100,000 tons per year. China-invested enterprises will, in the form of joint ventures, shareholding or acquisition, cooperate with local enterprises of Pakistan to build a three-level warehousing system. It will actively improve import and export potential of Pakistani agricultural products.

For industry, the plan trifurcates the country into three zones: western and northwestern, central and southern. Each zone is marked to receive specific industries in designated industrial parks, of which only a few are actually mentioned the western and northwestern zone, covering most of Baluchistan and KPK province, is marked for mineral extraction, with potential in chrome ore, gold reserves hold a considerable potential, but are still at the exploration stage and diamonds. One big mineral product that the plan discusses is marble. Already, China is Pakistan's largest buyer of processed marble, at almost 80,000 tons per year. The plan looks to set up 12 marble and granite processing sites in locations ranging from Gilgit and Kohistan in the north, to Khuzdar in the south.

The central zone is marked for textiles, household appliances and cement. Four separate locations are pointed out for future cement clusters: Daudkhel, Khushab, Esakhel and Mianwali. For the southern zone, the plan recommends that Pakistan develop petrochemical, iron and steel, harbor industry, engineering machinery, trade processing and auto and auto parts (assembly) due to the proximity of Karachi and its ports.

Gwadar is positioned as the direct hinterland connecting Baluchistan and Afghanistan. The plan recommended that it be built into a base of heavy and chemical industries, such as iron and steel/petrochemical. It notes that some Chinese enterprises have started investment and construction in Gwadar taking advantage of its superior geographical position and cheap shipping costs to import crude oil from the Middle East, iron ore and coking coal resources from South Africa and New Zealand for onward supply to the local market, as well as South Asia and Middle East after processing at port. It is recommended that China's maximum annual direct investment in Pakistan should be around US$1 bn. Likewise, it concludes that Pakistan's ceiling for preferential loans should be $1 bn, and for non-preferential loans no more than $1.5 bn per year.

PAKISTAN

Deposits and other accounts of all scheduled banks stood at Rs. 11,214.048 bn after a 1.82% increase over the preceding week's figure of Rs 11,013.880 bn in the week ending April 28, 2017.

Gross advances of all Scheduled banks stood at Rs 5,776.687 bn higher by 1.37 % over the preceding week's figure of Rs 5698.574 bn

Notes in circulation stood at Rs 3,731.475bn during the week ending April 28 against Rs 3,766.845 bn a week earlier, showing a fall of 0.94%.

Large-scale industry output climbs 10.46 % in March on a Y-o-Y basis, the highest growth recorded in the last few years. With higher than expected growth in LSM, the government is likely to achieve the revised GDP growth target of 5.2 % for 2016-17. Industry-wise data shows the

Economic Letter
a weekly publication of The Institute of Bankers Pakistan
Volume 12, Issue No. 20 | Date: May 19, 2017

automobile sector recorded the highest growth of 20.97 % followed by food, beverages and tobacco 20.80 %, iron and steel 19.52%, fertilizers 10 %, pharmaceuticals 7.79 %, non-metallic mineral products 7.12 %, wood products 4.14 %, chemicals 3.23 %, rubber products 1.65 % and paper and board 0.12 %. The LSM sector increased its outputs due to continued improvement in the supply of electricity and gas and coupled with the expansion in credit.

Pakistan has achieved 5.28% GDP growth for the current fiscal year, mainly because of positive output of agriculture sector, according to Pakistan Bureau of Statistics (PSB). The major crops in agriculture grew by 4.12 %, minor crops by 0.21 % cotton ginning 5.59 %, livestock by 3.43 %, fishing by 1.23 % and forestry by 14.49%.

The government earned an additional $ 324.5 mn (Rs. 34 bn) from the sale of another spectrum to a cellular company. Mobilink was the only cellular mobile company that showed interest and submitted its bid on the last day of the auction, which was accepted.

INTERNATIONAL

Federal Reserve left its influential interest rate unchanged at the conclusion of its two-day meeting in Washington, citing a recent slowdown in growth that it said was likely transitory. US interest rates have risen to 1%, the highest level since November 2008.

Lloyds Bank, bailed out by the UK government at the height of the financial crisis, said on Wednesday that it had returned to full private ownership. Lloyds Banking Group notified the market that the government 's stake has been reduced to zero. As such the group has returned to full private ownership.

Saudi Arabia now controls the largest oil refinery in North America - The Port Arthur refinery in Texas is North America's largest oil refinery, and as of this week Saudi Arabia controls all of it. With the stroke of proverbial pen, Saudi's state – owned oil giant Aramco took on 100 percent ownership of the port.

Automation nation: According to research from Mckinsey Global Institute, 55.7% of work activities in Japan have the potential to be automated, due to nation's large manufacturing sector.

A third of income goes to housing in US- One-third: low and middle-income household in the USA spent on an average, about a third of their earnings on housing in 2015.

Anger control -It is tough to be rational when you are upset or angry. If you are having a conflict with a colleague and feel worked up, you are unlikely to make good decisions about what to say or do. Rather than jumping into discussion right way, buy yourself some time. If things are really heated, you can simply walk away, leave the room, take a walk outside to give yourself a chance to cool down. When you feel ready to make a thoughtful choice about how to proceed, you can return to the discussion *(Harvard Business Review).*

Editor: Rafi Ahmed | **Designed by:** Jahangir Ishaq
Published by: The Institute of Bankers Pakistan, M.T. Khan Road, Karachi 74200, Pakistan

(021)111-000-IBP (021-111- 000-427) (92-21) 35683805 www.ibp.org.pk IBPakistan The Institute of Bankers Pakistan