



Economic Letter

a weekly publication of The Institute of Bankers Pakistan

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Volume 15, Issue No. 36 | Date: September 4, 2020

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

PAKISTAN TIDINGS

COVID-19: UPDATES ON SBP'S MEASURES AS OF SEPTEMBER 2, 2020

◆ Loans Deferred	Rs. 643 bn
◆ Loans Restructured	Rs. 177 bn
◆ Loans Approved for Wages	Rs. 183 bn
◆ Loans Approved for Hospitals	Rs. 6.1 bn
◆ Loans Approved for Investment	Rs. 32.9bn
◆ Bank Branches Open	96pc
◆ ATMs Available	94pc

GDP GROWTH COULD REBOUND TO 1.8PC: IIF

Pakistan's GDP growth rate could rebound to 1.8pc in FY2020-21 owing to a recovery in private consumption but low tax revenue mobilization and high public debt will put government's commitment to reforms at a test, the Institute of International Finance (IIF) said recently. "We expect gradual improvement in economic activity in FY2020-21 following a small contraction in FY2019/20, but large fiscal deficit, on the back of low tax revenue mobilization and high public indebtedness remain major challenges," the IIF noted in its country report on Pakistan. It said the pandemic led to a contraction in output of 0.7pc in FY 2019/20 (ending June 2020) as domestic demand declined by 2pc, while exports of goods and services have increased by 1.6pc as compared with a decline of 7.3pc in imports of goods and services.

REVISION OF GUIDELINES ON STRESS TESTING OF THE BANKING SECTOR

The State Bank of Pakistan on September 2, released a revised suite of Guidelines on Stress Testing, which replaces the earlier guidelines issued in 2012. Stress testing is a key tool used globally by banks for risk management and capital planning. Accordingly, the revised guidelines will further strengthen the risk management capacity of the banks, Development Finance Institutions (DFIs) and Micro-Finance Banks (MFBs), in line with evolving international best practices and changing local economic and financial dynamics. The guidelines also envisage supervisory engagement with banks based on SBP's in-house assessment to ensure that appropriate risk mitigation measures are taken for strengthening the resilience of the individual institutions and the banking system.

JAPAN TO STEP UP TRADE WITH PAKISTAN

Ambassador of Japan to Pakistan Kuninori Matsuda has said that Japan is willing to import mangoes, rice, fish and textile products from Pakistan and requested that arrangements be made at ports that could facilitate agri-product exports. He stated this in a meeting with Adviser to Prime Minister on Finance and Revenue Dr. Abdul Hafeez Shaikh, which was held to discuss the strengthening of bilateral

MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

MONETARY POLICY RATE

7pc | Effective from June 25, 2020

KIBOR (6 MONTHS)

Bid% Offer%

STARTING	6.99	7.24
ENDING	7.02	7.27
CHANGE	+0.03	+0.03

FOREIGN EXCHANGE RATES

GBP(£) EURO(€) USD(\$)

STARTING	PKR 221.4698	PKR 198.9523	PKR 168.4181
ENDING	PKR 209.00	PKR 185.50	PKR 165.77
CHANGE	-12.4698	-13.4523	-2.6481

PAKISTAN STOCK EXCHANGE

100 Index

STARTING	41,056
ENDING	42,023
CHANGE	+967

GOLD RATE

(10 gm)

STARTING	PKR 105,163
ENDING	PKR 103,889
CHANGE	-1274



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PAKISTAN'S MAJOR ECONOMIC INDICATORS

REAL SECTOR (GROWTH IN %)	FY18 _F	FY19 _R	FY20 _P	FY20 _T
REAL GDP	5.5	1.9	-0.4	4.0
AGRICULTURE SECTOR	4.0	0.6	2.7	3.5
INDUSTRIAL SECTOR	4.6	-2.3	-2.6	2.3
SERVICES SECTOR	6.3	3.8	-0.6	4.8
CPI INFLATION (YoY%)	FY19	FY20 _{PA}	JULY 2020	AUGUST 2020
NATIONAL	6.8	10.7	9.3	8.2
URBAN	7.1	10.2	7.8	7.1
RURAL	6.3	11.6	11.6	9.9
FOOD INFLATION-URBAN	4.6	13.6	15.1	11.3
FOOD INFLATION-Rural	4.8	15.9	15.2	13.5
	FY19	FY 20	JULY 1 - 14 AUGUST 2020	-----
CURRENCY IN CIRCULATION (IN BILLION RUPEES)	562.210	1,191.977	163.808	-----

P-PROVISIONAL | PA-PERIOD AVERAGE | F- Final
R-Revised | T-Target

Data Sources: SBP/PSB/ESP/3rd Quarterly Report
on Pakistan's Economy-2019-2020-SBP

trade ties. During the meeting, Shaikh said Japan was a time-tested friend of Pakistan and had always supported the country. He expressed confidence that Pakistan's relationship with Japan would continue to become stronger with each passing day.

EXPORTS TO EU UNDER GSP+ RISE 3.3PC

Pakistan's exports to the European Union (EU) increased by 3.3pc under the Generalized System of Preferences Plus (GSP+) scheme, a report produced by the Democracy Report International and European Commission showed recently. Before the GSP+ Scheme, Pakistan's exports to 28-member Union stood at € 4.54 bn in 2013, which jumped to € 5.51 bn in 2014. In the second year of the GSP+ scheme, exports further jumped by 10pc to € 6.09 bn.

Since 2016, exports proceeds have stagnated at € 6.30 bn at 2016, € 6.69 bn in 2017 and € 6.88 bn in 2018. Of the € 6.739 bn exports to the EU in 2018, Pakistan was able to avail tariff concessions on € 5.885 bn. From 2013 to 2019, Pakistan was able to considerably enhance its exports to the EU with an increase of 65pc.

COTTON LIMELIGHT

◆ Pakistan is the fifth-largest cotton producer in the world and cotton products account for more than 50pc of the foreign exchange earnings of the country. However, the quality of cottonseed is comparatively overlooked as fiber yield and quality of cotton production are not considered though these are of prime importance to fetch high prices in the market.



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◆ Pakistan was short of more than 6 mn bales from the target for the 2019-20 crop which is equal to a financial loss of \$ 6 bn. The area under cultivation has fallen by 12pc in the last five years. During 2019-20, an area of 2.5 mn hectares was cultivated against the target of 2.9 mn hectares with the hope of production of 12.72 mn bales in the coming season.

◆ The farmers are replacing area under cotton cultivation with sugarcane and rice for better incentives, especially in Punjab which contributes 65pc of the total cotton area. The government is providing support to farmers involved in the production of wheat (Rs. 19.3 bn), rice (Rs. 11.4 bn) and sugarcane (Rs. 4 bn) but the cotton crop is neglected.

◆ Due to excessive production of sugarcane in Punjab's cotton zone, high relative humidity is created which is the main culprit that promotes pest attacks on the cotton crop in the region.

QUINOA POTENTIAL

The Punjab Seed Council has recently approved the first quinoa variety 'UAF-Q7' in Pakistan. The researchers from University of Agriculture, Faisalabad (UAF) have identified that UAF-Q7 showed the best performance in terms of a higher yield of up to 3 tonnes per hectare. The researchers have not found any insect attack and disease infestation for the last ten years which shows its potential for organic farming. Just like wheat, it is sown in November and harvested in April. While sandy loam to clay loam soil is ideal, it can easily be grown on marginal lands which are not suitable for other crops. Due to its excellent protein amino acid balance, vitamins and minerals, it is popular as a superfood. Its nutritional profile and potential health benefits are very high compared to wheat, maize and rice as it has a considerable proportion of all essential amino acids, carbohydrates, fats, fiber and minerals.

REVENUE COLLECTION IN AUGUST

Revenue collection in August amounted to Rs. 5 bn year-on-year to Rs. 294 bn, data released by the Federal Board of Revenue (FBR) showed recently. The board had projected revenue collection of Rs.308 bn for August. The heavy rainfall badly affected customs clearance of imported

cargo during the last week of August leading to lower collection of duty and taxes at import stage. Meanwhile, cumulative revenue collection in July-August reached to Rs. 594 bn, up 2pc from last year. Meanwhile, revenue collections in July and August were 7pc higher than the FBR's target of Rs. 551 bn.

BANKS DISBURSED RS. 1,215 BN DURING FY2019-20 TO AGRICULTURE SECTOR

Banks disbursed Rs. 1,215 bn to agriculture sector during FY2019-20. This is 3.5pc higher than the amount disbursed in the previous fiscal year but less than the credit target of Rs. 1,350 bn which was set by Agricultural Credit Advisory Committee (ACAC) in Peshawar in November 2019. Some factors which have constrained the growth of agriculture credit include the impact of COVID-19 pandemic, locust attack and continuing issues including water shortage, low production of cotton, sugarcane, low off take of fertilizers and volatility in prices of agri-produce etc. The outstanding portfolio of agriculture credit increased to Rs. 581 bn at end-June, 2020, registering growth of 3.3pc compared with the last year's position of Rs. 562 bn. However, the number of agriculture borrowers declined from 4.01 mn at end-June 2019 to 3.74 mn at end-June 2020 due to the COVID-19 lockdown situation in the country.

BANKING BRIEFS (RS. IN BILLIONS)

AS AT AUGUST 21, 2020 AS AT AUGUST 14, 2020

DEPOSITS OF ALL SCHEDULED BANKS

16,048.816 16,035.494

% PLUS / MINUS COMPARED TO PREVIOUS WEEK

+0.08 -----

GROSS ADVANCES

8,036.810 8,073.900

% PLUS/ MINUS COMPARED TO PREVIOUS WEEK

-0.45 -----



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INTERNATIONAL SCENARIO

APPLE CEO TIM COOK IS FULFILLING ANOTHER STEVE JOBS VISION

After doubling in size in less than four years, Apple's services division now generates \$ 50 bn in annual revenue. Apple co-founder Steve Jobs, who died in 2011, was a tough act to follow. But Tim Cook seems to be doing so well at it that his eventual successor may also have big shoes to fill. Initially seen as a mere caretaker for the iconic franchise that Jobs built before his death, Cook has forged his own distinctive legacy. He will mark his ninth anniversary as Apple's CEO Monday the same day the company will split its stock for the second time during his reign, setting up the shares to begin trading on a split-adjusted basis beginning Aug 31. Grooming Cook as heir apparent was one of Steve Jobs greatest accomplishments that is vastly underappreciated, said long-time Apple analyst Gene Munster, who is now managing partner of Loup Ventures.

INDIAN ECONOMY SHRINKS 24PC

India's economic growth suffered a historic 23.9pc decline between April and June, official figures showed on August 24, as manufacturing and productivity were battered by a strict coronavirus lockdown. The contraction was the biggest since New Delhi started publishing quarterly statistics in 1996 and the latest figures came as the country's coronavirus cases surged past 3.6 mn. The steep dip in Asia's third-largest economy reflected the impact of a months-long nationwide shutdown that saw most industrial and manufacturing activity grind to a halt. The government warned the figures could be revised further since the pandemic had also affected the ability to collect accurate data on economic activity. The virus restrictions dealt a severe blow to an economy already struggling with a protracted slowdown through 2019, hit by the twin shocks of shrinking consumer demand and rising unemployment levels. The decline was worse than expected, with a survey of economists by Bloomberg earlier predicting a contraction of 18pc. The government warned the figures could be revised further since the pandemic had also affected the ability to collect accurate data on economic activity.

SWITZERLAND PLUNGES INTO RECESSION WITH HISTORIC SLUMP

Switzerland has plunged into recession after the coronavirus pandemic caused a "historic" 8.2pc slump in economic activity in the second quarter, official figures showed recently. In the second quarter, Switzerland's GDP (gross domestic product) suffered the biggest decline since records of quarterly data began in 1980, according to the economic affairs ministry's (SECO) statement. During the first quarter, the wealthy Alpine nation's economy shrank 2.5pc compared to the previous quarter, it said, revising the figure slightly from the 2.6pc announced in June. (*Recession is defined as two consecutive quarters of contraction.*)

ONE OF THE WORLD'S RICHEST PETRO-STATES IS RUNNING OUT OF CASH

When Kuwait's then-Finance Minister Anas Al-Saleh warned in 2016 that it was time to cut spending and prepare for life after oil, he was ridiculed by a population raised on a seemingly endless flow of petrodollars. Four years on, one of the world's richest countries is struggling to make ends meet as a sharp decline in energy prices raises profound questions over how Gulf Arab states are run. Slow to adjust big-spending habits as oil revenues fall, the Gulf states are hurtling toward a moment of economic reckoning, prompting renewed debate over the future of nations that for decades bought popular loyalty with state largesse. In Kuwait, however, lawmakers have thwarted plans to reallocate state handouts and blocked proposals to issue debt. Instead, the government has almost exhausted its liquid assets, leaving it unable to cover a budget deficit expected to reach the equivalent of almost \$ 46 bn this year. Kuwait still relies on hydrocarbons for 90pc of its income. The state employs 80pc of working Kuwaitis, who out-earn private-sector counterparts. Benefits for housing, fuel and food can total \$ 2,000 a month for an average family. Salaries and subsidies soak up three-quarters of spending by the state, which is heading for its seventh consecutive deficit since the 2014 oil slump.



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MANAGEMENT VIEWS

MANAGERIAL TIPS

TURN A CANCELLED CONFERENCE INTO A NETWORKING OPPORTUNITY

You may be missing the lack of networking opportunities at the moment, but there are still ways you can build your professional network while working from home. Here is a counterintuitive tip: use cancelled conferences as a way to meet people. If there was a particular event you were looking forward to, identify participants who were supposed to attend or speak. (If you do not have the list, you can often email conference organizers and ask for it.) Choose a handful of people that you would like to connect with and find something you have in common that might make them interested in meeting you. For instance, maybe you are both involved in robotics research, or maybe you are alumni of the same university. Email them or send a LinkedIn message saying something like: "I had been hoping to meet you at [conference name] and I thought it might be interesting to chat because we [share the same interest]. I figured I did reach out virtually instead. Let me know if you would like to meet for a coffee over Zoom." You would not get a reply from everyone you contact, but you might get a few responses that could lead to valuable connections.

(This tip is adapted from *How to Network When There Are No Networking Events*, by Alisa Cohn and Dorie Clark-HBR.)

SNIPPETS

PERMANENT VIRTUAL WORK

In a recent study, participants said that they were willing to take up to an 8pc pay cut for the opportunity to work from home.

ALWAYS OPTIMIZING

Google revealed in 2018 that its systems run more than 500 mn tests per day.

PLAY 'FRIENDLY HARDBALL' IN YOUR NEXT NEGOTIATION

In any negotiation, your goal is to get what you want while maintaining a good relationship with your counterpart. In reality, this can be a tough tightrope to walk. One technique that might help is to juxtapose what you can offer against the least your counterpart is willing to accept. In other words, you can ask something like, "how does my offer compare to your minimum price?" This may seem counterintuitive, but it can encourage the other person to make a less ambitious counteroffer, because they are reminded of the price that they were willing to settle for. It is important to do your homework ahead of time and figure out the "bargaining zone," or the area between your baseline expectations and your counterpart's. If you make an offer without considering the bargaining zone, you are unlikely to be successful, no matter how you frame that offer. Also, do your best to determine whether there are any pre-existing offers on the table that might impact your counterpart's walkaway price and adjust your strategy accordingly. If your counterpart has more attractive other offers, your walkaway framing is less likely to work.

(This tip is adapted from *How to Play 'Friendly Hardball' in a Negotiation*, by Michael Schaefer, Martin Schweinsberg and Roderick Swaab-HBR.)

ASPIRING ENTREPRENEURS, IDENTIFY A MEANINGFUL PROBLEM TO SOLVE

Starting a business is not easy — and scaling it is even harder — so you need to be committed. Before sending that "I quit!" email you have been fantasizing about, identify a problem that you have a personal connection to and that you are driven to solve. It could be that you have identified shortcomings particular to your industry. Maybe you are part of a consumer segment that is underserved by the current offerings. Next, make sure you are clear on the value you will bring to customers. How will you make their lives easier, more pleasant or more meaningful? How will you go out of your way for them at every turn? However, you come to your idea, you should feel like you have no choice but to start this particular business at this moment in time. It will make the mornings when you wake up and wish that it was someone else's problem much easier to bear.

(This tip is adapted from *So You Want to Be an Entrepreneur?* by Emily Heyward-HBR.)

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DONATE FOR THE PRIME MINISTER'S COVID-19 PANDEMIC RELIEF FUND



IBP ONLINE TRAININGS

FROM SEPTEMBER 08-14, 2020

**08 SEPTEMBER
TUESDAY**

10AM - 1PM

ENTERPRISE TECHNOLOGY GOVERNANCE AND RISK MANAGEMENT

FACILITATOR: Syed Muhammad Ali Naqvi

COURSE FEE: PKR 5,000/- Excluding Tax

**10 SEPTEMBER
THURSDAY**

10AM - 1PM

PRICING MECHANISM OF BANKING PRODUCTS

FACILITATOR: Muhammad Shoaib Malik

COURSE FEE: PKR 5,000/- Excluding Tax

**11 SEPTEMBER
FRIDAY**

4PM - 7PM

AGRICULTURE AND LIVESTOCK FINANCING IN PAKISTAN

FACILITATOR: Kamran Akram Bakhshi

COURSE FEE: PKR 5,000/- Excluding Tax

**12 SEPTEMBER
SATURDAY**

2PM - 5PM

DIGITAL BANKING - TRENDS AND CHALLENGES

FACILITATOR: Ahmed Hasan Gardezi

COURSE FEE: PKR 5,000/- Excluding Tax

**14 SEPTEMBER
MONDAY**

10AM - 1PM

RISK MITIGATION MEASURES FOR FINANCIAL CRIMES IN BRANCHES

FACILITATOR: Naveed Elahi Malik

COURSE FEE: PKR 5,000/- Excluding Tax

FOR REGISTRATION AND INFORMATION

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