



# Economic Letter

a weekly publication of The Institute of Bankers Pakistan\*

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Volume 14, Issue No. 06 | Date: February 08, 2019

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

## PAKISTAN OVERVIEW

### Textiles Spins

- Pakistan's currency has cumulatively lost about 25pc of its value against the dollar since the beginning of 2018.
- Gas and electricity prices for the five export industries have been brought down to the level of average regional prices and textile exporters are now able to import duty-free cotton.
- The government is also working on ensuring the early payment of refunds of more than Rs. 200 bn to improve the exporters' liquidity position. It also announced some incentives to boost investment in greenfield projects.
- All these measures have been instituted to boost the country's collapsing exports, especially textiles and clothing, a phenomenon that has significantly contributed to the widening current account deficit and forced the government to accumulate a massive pile of expensive foreign debt over the last five years.
- And yet textile and clothing exports, which fetched \$13.5 bn or almost 60pc of total export earnings last fiscal year, continue to struggle.
- The industry's total shipments remain flat at \$6.64 bn during the first half of 2018-19 on an annual basis. This raises questions about the rationale for the subsidy worth billions of rupees given to the country's largest manufacturing industry that contributes 8.5pc to GDP and employs 46pc of non-farm labor.
- APTMA Head is of the firm view that textile and clothing exports can easily double to \$26bn in the next five years if the government continues to support the industry through a long-term policy.

### 'Benami Act' to Become Operational From Feb 8

After a delay of more than two years, the Federal Board of Revenue (FBR) on Monday announced that the Benami Act will become operational from Feb 8 onwards allowing government to confiscate properties and bank accounts registered with fictitious individuals. "We have drafted rules for the implementation of the much-awaited Benami Act and forwarded to the Law Division", said FBR Member Inland Revenue (IR) Policy Dr. Hamid Ateeq Sarwar. He said the law, which is in line with government's efforts to document the economy, will allow authorities to take strict action against movable and immovable assets registered with fictitious individuals in order to avoid taxes. The legislation was made through an act of parliament in Jan 2017 but was put on cold burner owing to delay in finalization of rules.

### Fiscal Deficit

The country's fiscal deficit is likely to reach 6pc of GDP during this fiscal year as the government has not introduced measures to curb expenditure and increase revenues in the supplementary finance bill announced recently, as noted by Moody's.

## MARKETS AT A GLANCE

Rates are taken till Friday 5:00 pm

### KIBOR (6 MONTHS)

	Bid%	offer%
STARTING	10.62	10.87
ENDING	10.61	10.86
CHANGE	-0.01	-0.01

### FOREIGN EXCHANGE RATES

	GBP (£)	EURO (€)	USD (\$)
STARTING	PKR 180.90	PKR 158.00	PKR 138.00
ENDING	PKR 177.50	PKR 156.30	PKR 137.50
CHANGE	-3.4	-1.7	-0.5

### PAKISTAN STOCK EXCHANGE

	100 Index
STARTING	41,112
ENDING	40,887
CHANGE	-225

### GOLD RATE

	(10 gm)
STARTING	PKR 58,000
ENDING	PKR 57,600
CHANGE	-400

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## Reserves Held by SBP Rise

Reserves held by SBP jump by \$1.518 bn to \$48.154 bn during the week ended on January 25, 2019.

## What a Single Tax System Means ?

Finance Minister Asad Umar plans to club together multiple taxes into a single tax to minimize interaction between investors and businesses with various tax agencies as part of the ease of doing business reforms. The minister said that the plan would be part of the budget 2019-20 through the finance bill. "The idea is to merge all the federal taxes and levies into a single tax. The Federal Board of Revenue (FBR) will collect the single tax and the Ministry of Finance will transmit to various ministries and agencies according to their share," he said. "The agencies should interact with each other through the Ministry of Finance and reconcile their claims. New Zealand has a single tax, Hong Kong had 3, Malaysia 8 and India 13 compared to Pakistan's 47 which has recently been reduced to 16. Leading businesses are reported to have emphasized upon the need to minimize the number of taxes even if the government was not willing at this stage to reduce the overall tax burden. At present, businesses have to respond to 47 taxes or desks.

## Mini-Budget Measures Not Enough to Curb Fiscal Deficit: Moody's

The country's fiscal deficit is likely to reach 6pc of GDP during this fiscal year as the government has failed to introduce measures to curb expenditure and increase revenues in the supplementary finance bill announced last week, noted Moody's recently. The mini-budget will foster exports and support the country's manufacturing sector but ignored spending cuts or measures to increase revenues eroding government's ability to meet the deficit target of 5.1pc, added the note. The financial services company expects the fiscal deficit to widen to 6pc as the revenue is expected to remain below earlier projections given placid economic growth and new incentives to boost revenues before narrowing to 5pc of the GDP by FY21. Moody's commented that barring exports, the country's external sector has shown marked improvement during the last few months visible in 10pc increase in remittances and 3pc slowdown in imports.

## AIIB Looking to Invest Over \$1 bn in Pakistan

The Asian Infrastructure Investment Bank (AIIB) recently said it was considering to invest over \$1 bn in Pakistan's critical infrastructure projects in the transport, urban and rural water and energy sectors. This would expand AIIB's total portfolio in Pakistan to \$1.462 bn including two projects, currently under implementation. It has so far approved up to a total of \$7.5 bn in investments in 13 countries for 35 projects.

## Eight Firms To Supply LNG

Pakistan LNG said eight companies have technically qualified to supply spot liquefied natural gas (LNG) into the country over March and April, after receiving a total of 30 bids. The companies are Gunvor International, Eni, Trafigura, SOCAR Trading, DXT Commodities, Vitol Bahrain, Petronas LNG and Glencore Singapore, according to a document published on its website. Pakistan LNG is seeking five LNG cargoes for delivery over March and April. The tender closed on January 30 and is expected to be awarded in soon.

## SNIPS

### Powering Through

The African Development Bank has established a campaign to help close the power gap in the continent, pledging \$12 bn to energy projects between 2017 and 2022.

### You Have Got Mail

A McKinsey study found that workers, on average, spend about 28pc of office hours reading and answering emails.

### The Tenure Track

In the past five years, 282 CEOs working at S&P 500 companies have stepped down from their positions, according to research from US firm Equilar.

### Mind The Gap

In 2017, female founders leading all-women teams received 2.2pc of venture capital dollars, compared to the 79pc raised by all-male teams.



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## INTERNATIONAL VISTA

### Bangladesh Fails To Take Step Against Corruption

Bangladesh has gone down six notches in the Transparency International's global Corruption Perceptions Index (CPI) 2018 for a lack of effective government measures to fight corruption. In South Asia, Bangladesh ranked the second lowest, only ahead of war-torn Afghanistan. The Berlin-based graft watchdog listed a host of reasons for the slide to 149th position out of 180 countries surveyed last year from 143rd the previous year. The CPI index, which ranks 180 countries by their perceived levels of public-sector corruption based on findings by globally reputable survey sources, uses a scale of zero to 100, where zero is highly corrupt and 100 is very clean. This year's average score was 43. Bangladesh scored a meagre 26, a little over half of the average. The country's latest position is 13th from the bottom, down from 17th in 2017. Bangladesh's spot is shared by two African countries, Central African Republic and Uganda. The three least corrupt countries in 2018 were Denmark, New Zealand and Finland with scores of 88, 87 and 85. The bottom three countries are Somalia, Syria and South Sudan who scored just 10, 13 and 13. None of the 180 countries surveyed scored 100, meaning corruption remains a major challenge for every country. Pakistan scored seven points more than Bangladesh to position itself at 117, a spot 32 steps ahead of Bangladesh.

### Russian Economy Outpaced Expectations in 2018

Russia's economy expanded 2.3pc last year, growing more quickly than the government and the IMF had predicted, according to state statistics published recently. Russia's growth rate accelerated from 1.6pc in 2017 and exceeded the economy ministry's prediction of 1.8pc as well as the International Monetary Fund's forecast of 1.7pc. The country's economy only returned to growth in 2017 after two years of recession in 2015 and 2016.

### Car Giant Nissan Cancels Investment Plan in UK

Japanese car manufacturer Nissan announced recently it was cancelling plans to build its X-Trail SUV at its plant in

northeast England despite BREXIT assurances from the government. 'While we have taken this decision for business reasons, the continued uncertainty around the UK's future relationship with the EU is not helping companies like ours to plan for the future' Nissan Europe Chairman said in a statement. The car giant announced in 2016 that it planned to build the model at its plant in Sunderland, but will now assemble it instead at Nissan's global production hub in Kyushu, Japan. The company said it had decided to shift investment away from the British plant, and towards developing vehicle technology.

### Indian Unemployment Rate Highest in 45 Years: Report

More people are withdrawing from the workforce as the labor force participation rate is lower than in the previous years. The country's unemployment rate was at a 45-year-high of 6.1pc in 2017-18, according to the periodic labor force survey (PLFS). The report was not released despite being vetted by the National Statistical Commission in December, allege two non-independent members who quit the data collating body recently. According to the report, which has not been made public, the unemployment rate was at its highest level since 1972-73. The report says in 2011-12, the unemployment rate stood at 2.2pc and youth unemployment is at "astronomically high" levels of 13 to 27pc. Joblessness was higher in urban areas (7.8pc) than in the rural areas (5.3pc).

### Military Steps in as Australia Floods Bring Crocs to the Streets

Australia's military has been deployed to tackle devastating "once-in-a-century" floods that have inundated homes, schools and airports in the country's northeast, forcing hundreds to flee and bringing crocodiles onto the streets. The Australian Defence Forces delivered 70,000 sandbags, deployed amphibious cargo vehicles and helped pluck flashlight-wielding residents from their rooftops, as monsoon rains drenched the northern state of Queensland. Australia's tropical north experiences heavy rains during the monsoon season, but the recent downpour has seen some areas get a year's worth of rainfall in a week.



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## MANAGEMENT OUTLOOK

### TIPS

#### Where Are You in Your Career? Where do You Want to Go?

It is not always clear how you should think about growing in your career. One thing to try is writing a “from-to” statement that articulates where you are today and where you want to go. For example: I want to progress from an individual contributor who adds value through technical expertise and closely follows others’ directions, to a people leader who creates a clear strategy and delivers results through a small team. To write a from-to, ask trusted superiors and colleagues for their candid view of your current role and your goals. Tell them to be brutally honest, because their transparency will help you figure out how you need to grow. Reflect on their answers and incorporate them into your from-to statement — and then have your colleagues read it. Sometimes people think they’re far ahead of where they are, or choose a destination that is unrealistic. Your advisers can provide a reality check. (Adapted from *A Simple Way to Map Out Your Career Ambitions*, by Marc Effron-HBR.)

#### How to Work with Someone Who Bugs You

Sometimes you have to work with a colleague you do not particularly like. They may not be toxic or difficult — they might just get on your nerves. To work with them productively, remind yourself that while you will not get along with everyone, there is potential value in every interaction. Think about the other person’s point of view: Why do they do the things that annoy you? What might be motivating them? And how do you seem to them? It also helps to approach conversations with a problem-solving mindset: “I do not feel like we are working together as effectively as we could. What do you think? Do you have any ideas for how we can work together better?” If that does not work,

try asking for their help: “You have been around here longer than I have. What should I be doing more or less of?” This can ease tensions and reboot a difficult relationship because it shows that you value the person’s experience. (Adapted from *How to Collaborate With People You Don’t Like*, by Mark Nevins-HBR.)

#### Managers, Be Thoughtful About the Weight Your Words Carry

Bosses have a lot of influence on how employees spend their time. That is why it is so important for them to consider the ripple effects their input can have. Think of your comments, suggestions and questions as pebbles you are throwing into a stream: Each one can have an impact far larger than you may intend. So always recognize the weight your words carry, and speak with intention. During meetings with your team, try not to “think out loud,” and avoid lobbing ideas at everyone. Be sure you are giving the team a clear, unified picture of projects and strategies; if you are not ready to do that in a certain situation, hold off on saying anything until you are. And do not ask for updates unless you really need them. That kind of message appears urgent, even when it is not. Always specify what information you need, why and when, so you do not create an unnecessary fire drill. (Adapted from *To Get More Done, Focus on Environment, Expectations and Examples*, by John Zeratsky-HBR.)

#### Twitter Profit Soars as User Base Shrinks

Twitter profits rose sharply in the fourth quarter, lifted by gains in advertising despite a drop in its global user base. The short-messaging platform said it posted a \$255 million profit in the final three months of 2018, compared with \$91 million a year earlier, as revenues rose 24 per cent to \$909 million. But Twitter’s base of monthly active users declined to 321 million — a drop of nine million from a year earlier and five million from the prior quarter.

Editor: Rafi Ahmed | Deputy Editor: Shahla Naqvi | Designed by: S. Haris Jamshaid | Email: Publications@ibp.org.pk

Published by: The Institute of Bankers Pakistan, M.T. Khan Road, Karachi 74200, Pakistan

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