Overview

The pace of global output growth—aided by rebound in trade and investment—has remained above expectations as the world economy has delivered 3.8 percent growth in 2017 up from 3.2 percent in 2016.[1] The upturn remains synchronized with, approximately, three-quarters of the global economy sharing upswings in the economic cycle. With the rise in aggregate demand, inflation started inching-up in Advanced Economies (AEs) especially in the US, which compelled the Federal Reserve to initiate policy normalization. Despite gradual tightening, however, global financial conditions have remained supportive.

Short-term risks to global financial stability—after receding in 2017—have risen recently due to equity market volatility and trade disputes. Medium-term vulnerabilities remain at an elevated level arising from expected tightening of financial conditions, rising leverage, policy uncertainty, geopolitical tensions, cyber security concerns and extreme weather conditions **(see Chapter 1)**.[2]

The domestic economy has managed a decade-high growth of 5.37 percent during FY17, despite rising external sector vulnerabilities and fiscal slippages. The momentum in economic expansion has continued in FY18 with estimated growth of 5.79 percent. Until April 2018, LSM has expanded by 5.76 percent, reflecting broad based expansion across various sectors of the economy. Headline inflation has been subdued, though core inflation has remained at an elevated level **(see Chapter 1).**

The rising macroeconomic vulnerabilities have translated into short-lived **financial markets** volatility. FX market, in particular, has experienced continuous pressures resulting in exchange rate depreciation in the second half of CY17 and the first half of CY18. The equity market, after touching an historic high, has seen notable correction due to political uncertainty, unmet expectations of higher inflows from Pakistan's inclusion in MSCI's emerging market category, and rising yields in AEs **(see Chapter 2)**.

Table 1

Assets Composition of the Financial Sector

	CY13	CY14	CY15	CY16	CY17
Assets (PKR Billion)	14,661.0	16,888.6	19,448.4	21,979.9	24,800.5
Growth rate (Percent)	10.1	15.2	15.2	13.0	12.8
	Percent of Total Assets				
MFBs	0.4	0.4	0.5	0.8	1.0
DFIs	1.0	1.0	1.0	0.9	0.9
NBFIs	5.2	5.1	4.9	6.0	4.6
Insurance	4.8	5.2	5.1	5.3	5.3
CDNS	16.7	16.6	15.8	15.0	14.2
Banks	71.9	71.7	72.7	72.0	74.0
	Assets as Percent of GDP (Average)				
MFBs	0.2	0.3	0.3	0.6	0.7
DFIs	0.6	0.7	0.7	0.7	0.7
NBFIs	3.2	3.3	3.4	4.3	3.5
Insurance	3.0	3.3	3.5	3.8	4.0
CDNS	10.3	10.6	10.9	10.8	10.6
Banks	44.3	46.0	50.0	51.9	55.3
Overall assets	61.7	64.2	68.8	72.0	74.7

Source: Unaudited financial statements of banks, MFBs, NBFIs and insurance companies. SECP & SBP

In the wake of challenging operating environment, Financial Institutions have performed reasonably well; however, some low to moderate levels risks have emerged. **Financial sector's** consolidated assets have increased by 12.8 percent during CY17 (5-year average growth: 11.7 percent) resulting in greater financial depth. The financial assets to GDP

[1] IMF. (2018). World Economic Outlook. *Washington, April.*

[2] IMF. (2018). Global Financial Stability Report. *Washington, April*

ratio has been recorded at 74.7 percent in CY17 **(Table 1).**

The **banking sector**, a key player in financial intermediation, has performed fairly well. Its assets base has expanded by 15.86 percent on the back of broad-based 18.43 percent growth in advances. The key thrust in demand has come from textile, sugar, cement, and agribusiness sectors. Besides, the banking sector has remained sound and stable in CY17; Non-Performing Loans ratio (NPLR) at 8.4 percent has touched decade low level and Capital Adequacy Ratio (CAR) at 15.8 percent is well above the minimum regulatory requirement of 11.275 percent.[3] Nevertheless, declining profitability and deceleration in deposit growth are the key concerns, at the moment **(see Chapter 3.1)**.

In hypothetical but plausible domestic and global stress scenarios spread over the next 5-year horizon, the banking sector's solvency benchmark, however, falls below the local standards after showing resilience for three years. In case of severe and protracted downturn induced by the global macroeconomic conditions, the system even falls below the minimum global capital adequacy benchmark at the end of the simulation period. **(See Chapter 7)**.

The distinct business models of **Islamic Banking** and **Microfinance Banks (MFBs)** are gaining maturity with improved performance, expansion in advances, deposits and customer base and growing share in assets of the financial sector. Islamic banks have witnessed improvement in profitability, solvency, and asset quality; however, they continue to face liquidity management challenges due to dearth of Shariah compliant investment instruments **(see Chapter 3.2)**. While the performance of MFBs continues on an upward trajectory, improving financial literacy and enhancing outreach remain the key focus areas for realizing their actual potential and furthering the objective of financial inclusion **(see Chapter 3.3)**.

The challenging macrofinancial conditions, particularly in H2CY17, have influenced the performance of the **Non-Bank Financial Sector** as well.

Mutual Funds, dominating the **Non-Bank Financial Institutions (NBFIs),** in the wake of volatile prices and risk aversive sentiments, have shifted their portfolios away from equity towards shorter duration interest-based government securities. This not only provides them with risk free return but also a hedge against interest rate risk in the increasing interest rate environment. Nevertheless, the relative dominance of equity funds may still expose them to market volatility. The NBFIs have been growing from market-based structures while performance of the traditional intermediaries like modarabas, IFCs and leasing companies have been lagging behind due to structural inefficiencies and insufficient availability of low cost funds. However, increased focus on emerging segments like Microfinance institutions and availability of supporting framework is expected to facilitate the national commitment of promoting financial inclusion, in addition to enhancing market share of this segment in the NBFIs assets. **(see Chapter 4.2)**.

The **Development Finance Institutions (DFIs)** are reliant on short-term funding from financial institutions to support their growth. It is restraining them to graduate to a level where they can play the function of counter cyclical project financiers. The

[3] The current international benchmark for CAR is 9.875 percent https://www.bis.org/bcbs/basel3/basel3_phase_in_arrangements.pdf

limited intermediation role being played by DFIs have hindered their growth and adversely impacted the performance during the year. Making DFIs assume their true economic role is a key policy concern **(see Chapter 4.1)**.

The asset base of the **Insurance** industry has been estimated to expand by 12.09 percent in CY17 on the back of healthy increase in gross premiums, due to accelerated economic activity, easing of structural constraints, aggressive marketing, increasing acceptance of Takaful products, wider use of technology, etc. The industry, however, is exposed to concentration risk (due to the dominance of a few insurers) and market risk as adverse movement in interest rates or equity prices may affect its investment income. **(see Chapter 4.3)**.

Exchange Companies (ECs)—with steady growth and improving profits during CY17—pose limited systemic risk to financial system. However, since few ECs are subsidiaries of banks, the upstream risk, though limited, still exists **(see Chapter 4.4)**.

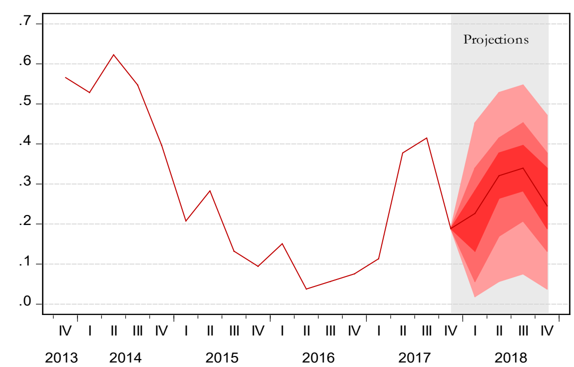
The **Financial Market Infrastructure (FMI)** has remained resilient and operated smoothly and efficiently. Pakistan Real-time Interbank Settlement Mechanism (PRISM), a key FMI, has facilitated growing volume and value of wholesale settlement transactions. The concentration of payments via PRISM remains low. Nevertheless, increasing adoption of e-banking channels poses cyber security risks, particularly for retail transactions. Further, owing to increasing interconnectedness among the FMIs, the contagion risk, within the system, is growing. SBP—cognizant of the emerging cyber challenges—is putting in place adequate safeguards to protect the integrity of the country's FMIs **(see Chapter 6)**.

The performance of the non-financial **corporate sector**—in parallel to the financial sector—has remained upbeat. The estimates suggest broad based steady growth in assets and decent profitability in CY17. While large listed firms are self-sufficient in liquidity with low debt burdens and strong repayment capacity, small listed firms are vulnerable in this perspective. Moreover, the textile sector, being one of the largest borrowers of the banking sector, has relatively high leverage and low repayment capacity **(see Chapter 5)**.

Figure 1(a)

Financial Vulnerability has increased in CY17 as compared to CY16

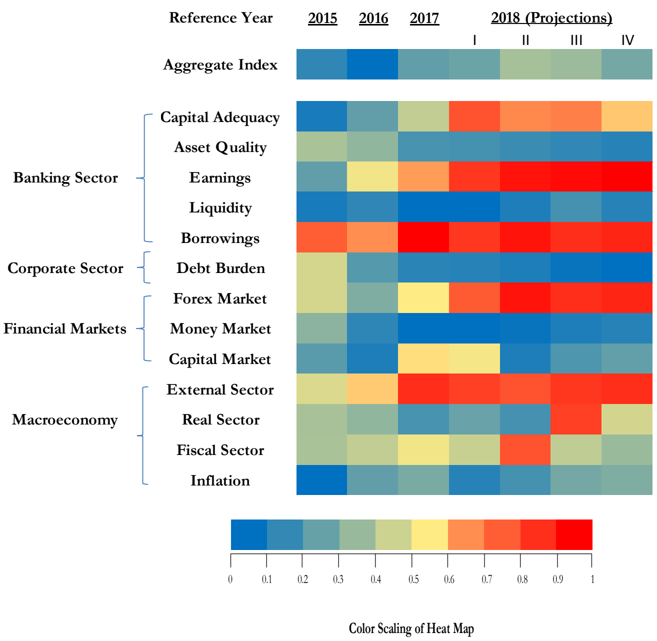
Financial Sector Vulnerability Index (FSVI)
(Probability of Risk)



Source: Staff Estimates

The consolidated picture of financial stability reveals bottoming out of vulnerability index in CY17 (**Figure 1a**). The tightening of macrofinancial conditions is driven by fragilities in the external account, fiscal slippages, increased inter-bank borrowings, and reduced banking sector's earnings (**Figure 1b).**

Figure 1(b)
Earnings, borrowings and external sector vulnerabilities dented the overall financial stability



Source: SBP

The Outlook …

In the short-term, risks to domestic financial stability may elevate further if external account challenges remain, fiscal imbalances persist, and savings in the economy (especially, deposit growth) stay low. Equity market volatility, within reasonable bounds, is essential to restore investor confidence. The projected path of financial vulnerability index does not show any major deviations in CY18. Nevertheless, the uncertainties surrounding the projections reflect rising odds of upside risk.

The first-hand information received from the market participants in January 2018 through SBP Systemic Risk Survey also suggests that political uncertainties and macroeconomic vulnerabilities such as deterioration in balance of payments and exchange rate dynamics pose a risk to the stability of financial system in the next six months **(see Box 1).**

Moreover, the Monetary Policy Committee of SBP, acknowledging the emerging near-term risks to the macroeconomic stability, has increased the policy rate by 50bps to 6.50 percent in May 2018. This rise has implications for the banking sector, in the short-term, through mark-to-market revaluation of large investment portfolio. Interest income on earning assets, however, could see a significant rise.

In the medium-term, risks to the financial system may decline in perspective of sustained growth momentum, rising opportunities from CPEC, improving energy availability, and expected increase in exports on the back of improving global demand.

State Bank of Pakistan (SBP), taking a proactive and holistic view of the emerging vulnerabilities, is not only strengthening its own regulatory and supervisory regime but is also collaborating with Securities and Exchange Commission of Pakistan (SECP) to address systemic concerns. **(See Box 2 on Regulatory Developments)**.

Box 1: SBP Systemic Risk Survey-1st Wave (January, 2018)

SBP, in pursuance of its Vision 2020, is committed to strengthen the financial stability regime in the country. This entails timely identification of existing and potential risks and vulnerabilities that may disrupt the smooth functioning of the financial system. Systemic Risk Survey (SRS) is a useful tool, used by central banks around the world, which helps in assessing and quantifying the risk perceptions of various market stakeholders.

In this regard, SBP has launched a biannual SRS to capture the risk perceptions of market participants and gauge their confidence in the stability of the financial system. The first wave of the SRS was conducted in January 2018. The respondents of the survey included risk management executives, financial journalists, academia and other experts. [4]

The survey intends to measure the present and future (over the next six months) risk perceptions of the respondents related to five broad categories including global, macroeconomic, financial markets, institutional and general risks. The overall response rate to the survey stands at 47 percent[5].

Summary Results[6]

1. At aggregate level, macroeconomic vulnerabilities are identified as the greatest risks to the financial stability at present; whereas financial market risks are perceived to be critical for the next six months (**Figure 1A & 1B**).[7]

2. Among all the risks, the highest cited, at present, are deteriorating balance of payments position, volatility in exchange rate, and widening fiscal deficit. For the next six months, respondents believe that political uncertainty, deterioration of balance of payments and uncertainty over exchange rate could potentially undermine financial stability (**Figure 2**).

3. The likelihood of occurrence of a high-risk event in the financial system of Pakistan over the short term is relatively higher than the medium term.

4. A higher proportion of respondents show confidence in the ability of regulators to ensure financial stability (**Figure 3**).

[4] The respondents included executives from commercial banks, insurance companies, exchange companies, MFBs, DFIs, financial journalists, members of academia and SECP officials.
[5] Out of 200 respondents of the first wave of the survey, 93 responded.
[6] The results presented here are based on responses received and do not necessarily reflect SBP's views on risks to the financial system.
[7] High risk is identified by aggregating the percentage of respondents choosing Very High or High as response to a particular risk category or type in the survey questionnaire.

Figure 1A

Perception on Sources of Systemic Risk -Present

(Percent)

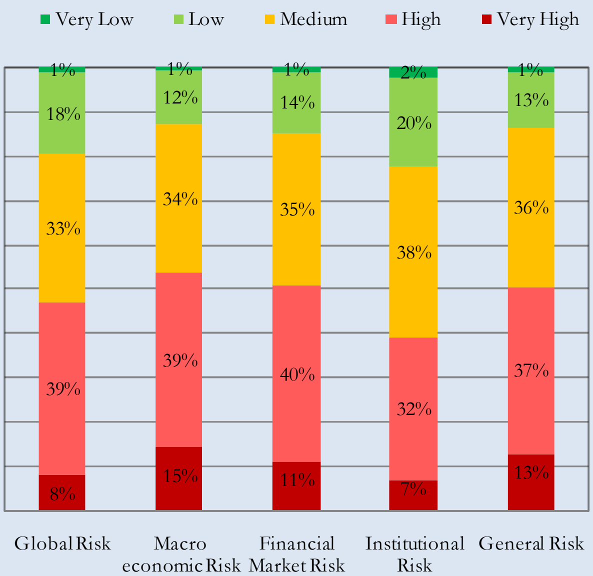


Figure 1B

Perception on Sources of Systemic Risk-Next 6 months

(Percent)

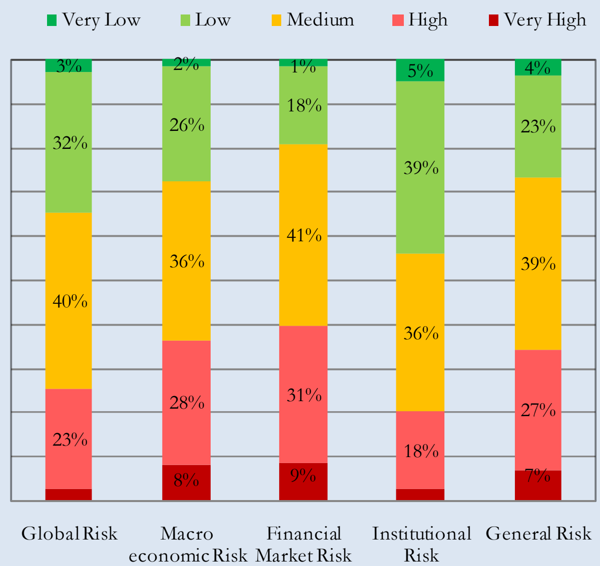


Figure 2

Top 10 Risks Identified

Perccent of Respondents Rating Very High & High

(Percent)

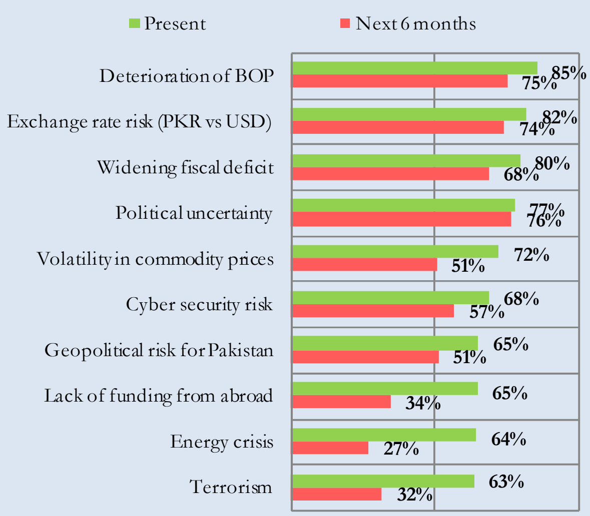
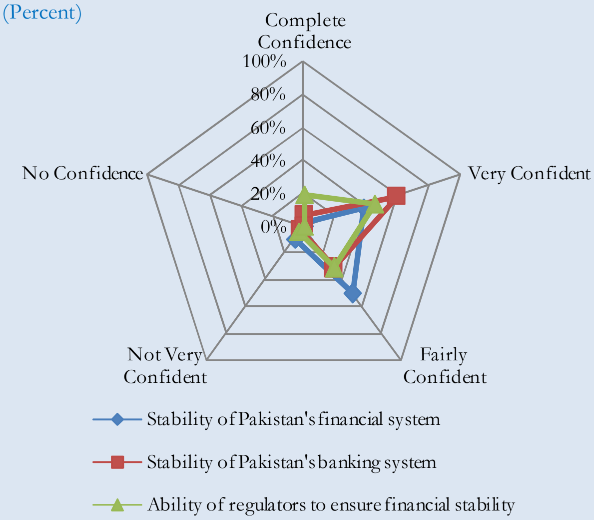


Figure 3

High level of confidence exhibited by survey results

Level of confidence on the stability of financial syatem

(Percent)



Source: SBP Systemic Risk Survey-1st Wave (January, 2018)

Box 2: Regulatory Developments-Perspective of Growth and Stability of the Financial Sector

SBP fosters stability and soundness of the banking system through its dynamic policy framework. This framework endeavors to provide a conducive environment for the banking sector to grow while protecting rights of financial consumers under an effective oversight function.

Recently—going beyond the banking sector—SBP has further embraced a holistic monitoring perspective of the financial sector under its **macro-prudential** regime. This is very much aligned with the SBP Vision 2020, which envisages designing and implementing a formal Financial Stability framework in the country. To this end, following institutional arrangements have been formulated to enhance regulatory cooperation and deliberations in the area of financial stability:

- Financial Stability Executive Committee (FSEC), which brings together Executives of key areas of SBP, has been established for in-house assessment of emerging risks under the Chairmanship of Governor-SBP.
- A Council of Regulators (CoR) has been established between SBP and SECP to provide a forum for deliberations on emerging issues having cross-market and stability implications, and come up with coordinated policy response.
- A Joint Task Force (JTF) of SECP and SBP officials is working on the financial conglomeration risk. The JTF reports its progress through the CoR.

A proposal for the establishment of a National Financial Stability Council (NFSC) comprising SBP, SECP and Ministry of Finance is presently under consideration for managing systemic level issues. Internationally, SBP is active in policy forums and contributes to International Consultative Documents/ surveys to provide required responses. The SBP continues to actively participate in Correspondent Banking Coordination Group (CBCG) formed by the Financial Stability Board (FSB) to assess and address the decline in correspondent banking.

The SBP has also participated in the Remittance Task Force (RTF) formed by the CBCG to coordinate work on identifying and addressing issues relating to remittance providers' access to banking services. SBP has participated in various international surveys including the World Bank's Survey on "Ease of Doing Business" in Pakistan, IMF's "Macro Prudential Policy Survey" and FSI Survey on "Organizational Arrangements for Financial Sector Regulation and Supervision" and Basel-III proportionality survey. In addition, SBP regularly provides input on various consultative documents issued by the BIS and FSB. SBP also voices its opinion on regulatory reform through its membership of various forums such as SEANZA (South East Asia, New Zealand, Australia Forum), Islamic Financial Services Board (IFSB), the FSB Regional Consultative Group for Asia and SAARC Finance.

SBP has been endeavoring to align its supervisory practices to international benchmarks. In order to assess further scope for improvement in its supervisory regime and establish a strategic baseline, SBP completed a self-assessment of **Basel Core Principles of Effective Banking Supervision**. Following the results of the assessment, SBP has taken necessary measures to bridge gaps from the setout standards to ensure continued relevance and effectiveness of its supervisory systems. To align its supervisory regime with the international standards, the SBP has taken following measures:

- SBP has developed a framework for designation and supervision of Domestic Systemically Important Banks (D-SIBs)[8]. The framework specifies the methodology for identification and designation of D-SIBs, enhanced regulatory and supervisory regime and implementation guidelines. The designated D-SIBs shall be required to meet both higher loss absorbency and enhanced supervisory requirements.

[8] BPRD Circular No. 04 of 2018 dated April 13, 2018

- Recovery plans for D-SIBs are being crystallized to ensure appropriate responses in crises to ensure seamless provision of banking services for the economy. Further, codification of procedures and processes for the banking industry to deal with crises are also under development.
- In view of the systemic significance of payment systems, SBP has introduced Payment Systems' Designation framework for enhanced supervision of Systemically Important Payment Systems (SIPs). The framework will ensure efficient management of various risks associated with the operations of payment systems and support compliance to global standards of Payment Systems to ensure safe and efficient operation of financial markets.
- Credit Risk Assessment Framework has also been strengthened with regular macro-level monitoring of credit concentration (Large Borrowers) across the banking sector.
- To strengthen proactive identification and early mitigation of systemic risks, the stress-testing framework for assessing resilience of institutions to various shocks is being enhanced to include modern econometric techniques. Moreover, under the ambit of macro-prudential analysis, work is underway to identify the Early Warning Indicators (EWIs) of systemic risk.
- To strengthen Consolidated Supervision (CS) framework, SBP has enhanced its engagement with the SECP on the financial conglomeration risk. SBP is also engaged with IMF's through a Technical Assistance (TA) to improve the CS regime and enhance supervisory capacities in this important area.
- The deposit insurance scheme is widely acknowledged as one of the key components of financial stability regime, which protects financially unsophisticated depositors from the loss of their deposits, create a formal protection mechanism and reduce the potential fiscal burden on the government. In line with the SBP Vision 2020, Deposit Protection Corporation (DPC) established under the Deposit Protection Corporation Act started its operation effective from 1st June, 2018, consequent upon appointment of its Managing Director and constitution of Board of Directors.

The Macro-prudential systems cannot function without proper backing of the legal powers and related safeguards. This aspect is also imperative for institution-level effectiveness of the **Micro-Prudential Supervision (MPS)**. SBP's micro-surveillance systems have been further strengthened under the Legal amendment in Foreign Exchange Regulations Act (FERA), 1947. These amendments has enhanced SBP's enforcement powers for supervision of Exchange Companies involved in FX sale and remittance business.

In addition, SBP conducts institution specific Off-site reviews on a periodic basis based on CAELS. To promote effective prudential conduct, SBP has started conducting annual prudential meetings with the Board of Directors, with focus on key risk areas. Apart from off-site activities, the SBP conducts regular on-site examinations and thematic reviews on high-risk areas. Credit risk management, Corporate Governance, AML/CFT and controls remained the key focus of these examinations and reviews. Further, technology risk has become the major focus area.

To further strengthen the control functions in the SBP regulated entities, SBP is pursuing a number of initiatives. It has developed a framework for Internal Audit, Risk Management and Compliance. This framework would form part of Control Assessments in Risk Based Supervision Framework-presently in development phase-and would support its effective rollout. With extensive use of technology platforms for delivery of banking services, SBP is finalizing the draft **Framework for Information System's Inspection and Branchless Banking.** In addition, a Framework for engagement of Bank's External / Internal Auditors to support supervisory assignments has been drafted.

Since effective regulatory compliance is a key determinant for financial institutions' performance and stability, SBP has developed guidelines[9] on **Compliance Risk Management** to provide the banking industry a uniform and systematic approach for identification, assessment and management of compliance risk. To enable the banks to minimize risks from excessive reliance on third party service providers, revised **Framework for Risk Management in Outsourcing Arrangements by Financial Institutions**[10] has been issued. Risks associated with the heightened use of technology has been addressed through issuance of a baseline **Enterprise Technology Governance & Risk Management Framework for Financial Institutions**[11]. To prevent use of banking channel for money laundering/ terrorist financing, SBP is continuously updating its **Anti-Money Laundering (AML)/Combating Financing of Terrorism (CFT)** Regulations to align with the Financial Action Task Force (FATF) recommendations (**See Box-3.1.3**).

While ensuring effective regulation and supervision of the regulated entities, SBP is also mindful of its developmental role. Accordingly, it is also playing a facilitative role in encouraging banking channels for promotion of **Emerging Areas of Finance** including renewable energy, resource efficiency and environmental protection. Under this initiative, SBP has issued **Green Banking Guidelines**[12] designed to induce modifications and improvements in risk management, business facilitation and own impact reduction.

SBP is in continuous pursuit of building customer confidence in the Islamic banking system through regulatory measures that deter risks from Shariah non-compliance. To this end, SBP has issued revised **Shariah Governance Framework**[13] with the objective to strengthen the overall Shariah compliance environment and explicitly define the roles and responsibilities of various organs of IBIs including the Board of Directors (BOD), Executive Management (EM), Shariah Board (SB), Shariah Compliance Department (SCD), Product Development (PD), internal auditors and external auditors towards Shariah compliance. To facilitate conventional banks desirous of converting their operations, a three-stage process for **Conversion of Conventional bank into an Islamic Bank**[14] has been issued. In its efforts to encourage capital formation in eligible sectors through Shariah-compliant financing, SBP has offered the Islamic counterpart of the LTFF i.e. the **Islamic Long Term Financing Facility (ILTFF)** for exporters[15].

To facilitate flow of credit to priority areas, sector-specific measures have been taken. To promote **microfinance** the following initiatives have been undertaken:

- In order to address funding constraints of the microfinance sector, SBP has set up a Line of Credit (LoC) with the funding support of the Government of Pakistan under World Bank's Financial Inclusion and Infrastructure Project.[16] This LoC will provide funds to Microfinance Banks (MFBs) and Non-Bank Microfinance Companies (NBMFCs) for onward lending to microfinance borrowers.
- MFBs that have graduated from pilot microenterprise lending programs to a commercial scale, have been allowed enhancement in the maximum loans size for Microenterprises from PKR 0.5 million to PKR 1 million. Exposure limit for borrowers who are able to avail both general and microenterprise loans have also been increased[17].
- Under a pilot project, some of the MFBs have been allowed to evaluate the feasibility for digital credit in the country by offering small ticket size loans for short span.

Further to government's budgetary initiatives for promotion of agriculture sector, SBP has assigned indicative agricultural credit disbursement targets to banks, microfinance banks and Microfinance

[9] BPRD Circular No. 07 dated Aug 09, 2017
[10] BPRD Circular No. 06 dated June 20, 2017
[11] BPRD Circular No. 05 of 2017 dated May 30, 2017
[12] IH&SMEFD Circular No. 08 dated October 09, 2017
[13] IBD Circular No. 01 dated June 07, 2018
[14] IBD Circular No. 01 of 2017 dated July 07, 2017
[15] IH&SMEFD Circular No. 01 of 2018 dated February 14, 2018
[16] AC&MFD Circular No. 01 of 2018 dated June 14, 2018
[17] AC&MFD Circular No. 03 dated December 22, 2017

Institutions/ Rural Support Programs (MFIs/RSPs). In addition, SBP has facilitated two pilot projects to test the feasibility of Warehouse Receipt Financing (WHRF) to develop physical trade and marketing system for commodities. Based on the results, SECP in consultation with SBP and other stakeholders has developed Collateral Management Companies (Establishment & Operations) Regulations for promoting WHRF system in Pakistan. SBP has further issued draft Framework for WHRF.

To facilitate the flow of credit to one of the country's priority sectors i.e. **SME sector**, SBP has introduced following measures:

- Prudential Regulations for SME Financing have been revised[18] to provide an enabling regulatory environment through relaxations in areas including requirements of obtaining insurance, Borrower's Basic Fact Sheet and maintenance of reserve against secured portfolio. Further, standardized loan application forms have been introduced along with prescribed reduction in turnaround time required for credit approval process.
- In consideration of the fact that majority of the SMEs lack expertise to professionally manage financial, technological, marketing and human resource aspects of their businesses ,banks have been advised to adopt Non-Financial Advisory Services (NFAS)[19] in their SME banking to better serve their existing and potential SME clients .
- In order to enhance the access of credit to Small and Medium Enterprises (SMEs), Refinance Scheme for Working Capital Financing of Small and Low-End Medium Enterprises[20] has been initially introduced for 8 selected economic sectors. Similarly, in an effort to improve financing access for Women Entrepreneurs in Underserved Areas, Refinance and Credit Guarantee Scheme has been launched. [21]
- The regulatory retail portfolio limit under Basel Capital Framework has been enhanced from PKR 75 million to PKR 125 million[22].
- SBP is also providing support to MoF in timely operationalization of the e-Registry, which will facilitate unincorporated entities especially the SMEs and agri borrowers to access formal credit against their movable assets.

Prudential Regulations (PRs) for **Housing Finance** have been revised[23] to provide a conducive regulatory environment for the Housing finance sector. Borrowers have been allowed to avail additional housing finance after the completion of two years instead of previous three years from the last date of disbursement. Moreover, the time to avail Balance Transfer Facility (BTF) has also been reduced to eighteen months from three years.

In the area of foreign exchange, **export financing** has been facilitated under a comprehensive policy[24] on grant of Export Loans under FE-25 scheme and instructions for settlement of outstanding (overdue) loans through interbank market.

Relief measures have also been adopted to facilitate **foreign borrowing and investments**. Resident insurance companies have been allowed[25] to issue US Dollar denominated insurance policies on notional basis to meet the condition of foreign lenders. Foreign investors have been allowed to meet margin requirements[26] (of ready cash transaction in PSX) from their SCRA account and to pledge securities in favor of NCCPL (in case of insufficient funds in the account) until settlement of transaction.

In order to enhance the **financial education and awareness** among the low income segment population,

[18] IH&SMEFD Circular No. 09 dated December 22, 2017
[19] IH&SMEFD Circular No. 10 of 2017 dated December 22, 2017
[20] IH&SMEFD Circular No. 11 dated December 22, 2017
[21] IH&SMEFD Circular No. 05 dated August 25, 2017
[22] BPRD Circular No. 08 dated Dec 22, 2017
[23] IH&SMEFD circular No 03 dated April 18, 2017
[24] FE Circular No. 05 dated May 10, 2017
[25] FE Circular No. 10 dated November 01, 2017
[26] FE Circular No. 03 dated March 24, 2017

SBP has launched "National Financial Literacy Program (NFLP)" to spread basic financial education to general public. As of December 2017, participating banks have conducted around 1300 programs at different geographies and imparted basic financial education to around 32,500 adults.

SBP has continued to deliver on an effective "Fair Treatment of Consumers" and an effective dispute resolution regime for **Financial Consumer Protection**. To sensitize consumers about their rights, comprehensive educational material, which covers customer rights /responsibilities and protection of payment Cards has been published. To enforce **market conduct** obligations and ensure omission-free resolution of consumer grievances, SBP has established a dedicated helpline for customers.

To mobilize savings towards the formal sector and further diversify **saving products** to cater to the wider financial consumer group new schemes have been launched:

- To facilitate low risk customers and encourage receipt of home remittances through proper accounts instead of the traditional cash over the counter transactions, SBP in collaboration with Pakistan Remittance Initiative (PRI) has launched the Asaan Remittance Account.[27]
- The Asaan Mobile Account (AMA) Scheme has been approved by the NFIS Council. Currently, governance, business and operational modalities are being finalized
- Home Remittance Account (HRA) has also been launched to receive home remittances through M-Wallet.

Further, because of recommendations made by SBP to the NFIS Council, FBR has approved adjustment of withholding tax on cash withdrawals by the BB agents to the extent of disbursements made to their clients.

To facilitate flow of funds within **Financial Market Infrastructure**, participation in payment networks has been expanded by accepting new participants. Accordingly, CDNS has been made a member of NIFT[28] to facilitate transferring profits from saving schemes directly into bank accounts of public while NCCPL has been allowed to settle net position of capital market transactions through PRISM[29]. In order to strengthen trade channels and remittance flows in CNY, a China-based bank has been allowed to establish a local CNY settlement and clearing setup in Pakistan.

Likewise, regulations that ensure transparency and alignments with international requirements have been issued. **Electronic Fund Transfer (EFT) Regulations**[30] have been issued to set forth the minimum information of originator and beneficiary to be required in a payment message and to address beneficiary responsibilities, Preauthorized Transfers, Compensation Policy for unauthorized / delayed EFT, Disclosure requirements, Dispute Resolution process etc. **PRISM Operating Rules (PORs)**[31] have been revised to cater to the evolving markets and **Guidelines for Clearing Operations**[32] have been issued to standardize the payment instruments' collection and swift receipt of funds by banking customers.

To improve efficiency of **Government Debt Market** operations and align with international standards, SBP has accommodated provision for conduct of special OMOs[33] for participation by Primary Dealers only. To accommodate NBFC's demand for investment in government paper, ceiling for participation in auction of government securities, limit of Non-Competitive Bidders has been enhanced from PKR 250 million to 500 million[34]. Further to GoP's decision to issue Floating Rate PIBs, SBP has issued guidelines and operational details of participation[35].

[27] BPRD Circular Letter No. 32 of 2017 dated December 06, 2017
[28] PSD Circular No. 03 of 2017 dated September 21, 2017
[29] PSD Circular No. 01 dated January 15, 2018
[30] PSD Circular No. 03 of 2018 dated May 09, 2018
[31] PSD Circular No. 02 of 2018 dated March 06, 2018
[32] PSD Circular No. 01 of 2017 dated Jan 11, 2017
[33] DMMD Circular No. 12 of 2017 dated July 03, 2017
[34] DMMD Circular No. 06 of 2018 dated March 15, 2018
[35] DMMD Circular No. 09 of 2018 dated May 07, 2018

SBP's evolving regulations adequately controls for emerging risks and is expected to augment the ongoing financing flows to private sector, specially the priority areas, without comprising the stability and soundness of the financial system.