

26th November, 2004

PAKISTAN'S FINANCIAL SECTOR GROWS ROBUSTLY

Pakistan's financial sector grew robustly during last year adding Rs.542.7 billion worth of assets which represent an increase of 15.3 percent over the base of 2002 and now account for almost 85 percent of the country's GDP, according to a report released by the State Bank of Pakistan today.

Corporate sector was the major recipient of the financial system credit with 54 percent share followed by SME sector 19 percent, agriculture 8 percent and consumer finance slightly less than 8 percent, according to the report titled 'Pakistan: Financial Sector Assessment 2003' which is a comprehensive assessment of the financial sector of Pakistan. Fixed investment during the year formed 26.2 percent of total credit to corporate sector.

Rapid growth took place in 2003 both in SME financing and agriculture credit. SME financing registered a growth of 72 percent and rose from Rs.145 billion to Rs.251 billion by June 2004. Agriculture Credit disbursements grew in the same period by 27 percent increasing the outstanding loan stock from Rs.804 billion to Rs.846 billion, says the report.

For the second year in a row, the country's financial savings growth rate was in double digits. The last fiscal year witnessed 15.8 percent growth in financial savings on top of a 10 percent growth in the previous year. As a result, financial saving as a percent of GDP increased to 70 percent. Almost one half of national savings are now generated by the financial sector. Three years ago, this ratio was only 28 percent. This remarkable achievement has been possible because of the improved efficiency and soundness of the financial sector. This can be seen from the fact that the average spread earned by the banks has declined to 4.4 percent in 2003 from 7.1 percent in 2001. The decline took place despite a much larger fall in the average return on advances and investment (from 13.3 percent to 6.6 percent – 670 basis points) earned by the banks compared to the lowering of the deposit rate (from 6.2 percent to 2.1 percent – 410 basis points), the report added.

The report is the third in its annual series of assessments. Earlier two reports gave the assessment for periods 1990-2000 and 2001-2002.

The salient feature of FSA report for 2003 is that in addition to banking and non-bank institution provides an enhanced coverage of insurance industry and social protection funds which were not covered in earlier assessment. The report highlights and makes an assessment of the rapidly changing environment of the financial sector in Pakistan and presents an overall picture of its performance for the year ending 2003.

Current and earlier FSA reports can be accessed from the website of State Bank of Pakistan, www.sbp.org.pk/publications/fsa.htm.
