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PAKISTAN'S FINANCIAL SECTOR CONTINUES TO PERFORM EXCEEDINGLY WELL

Pakistan's financial sector continued to grow vigorously in 2004, while undergoing significant changes in its size and structure. The overall size of the financial sector increased by Rs. 569 billion to reach Rs. 4.5 trillion by the end of the year, exhibiting a growth of 14.4 percent over 2003. The structure of the financial sector witnessed substantial changes both in terms of its ownership and institutional composition during the year. The privatization of big state-owned commercial banks, aggressive credit policies of private banks, increased activities in private sector mutual funds and net retirement in national savings schemes, have pushed the share of the private sector to 56.6 percent by the end of 2004, whereas the share of the government owned financial institutions (including National Savings Schemes) plunged to 43.4 percent.

These details are covered in State Bank's annual publication, "Pakistan : Financial Sector Assessment 2004", released by the State Bank today. The report is the fourth in SBP's annual series of a comprehensive assessment of the financial sector, which covers banks, non-bank financial institutions, financial markets, and the insurance industry. The report gives an in-depth analysis of these constituents of the financial sector, depicting their overall performance characteristics for the year under assessment. The current report ensures an enhanced coverage with the inclusion of separate chapters on Islamic Financial Services and Bank Credit, in addition to undertaking regional comparisons with the objective of assessing Pakistan's performance with SAARC and ASEAN countries.

The corporate sector was the major recipient of bank credit in 2004, with a share of 54 percent during the year, followed by the SME sector at 17.5 percent, agriculture (and commodity finance) at 15 percent and consumer finance at 9.4 percent. Fixed investment constituted almost 41 percent of the credit extended to the corporate sector.

Brisk growth was seen in 2004 in SME financing which registered a growth of 26 percent. Consumer Finance outpaced credit growth in all sectors with an increase of almost 84 percent during the year, whereas Agriculture credit disbursements grew by 48 percent.

Islamic financial services, which have seen a remarkable progress in the last year, are discussed in detail in the report, taking into account the shariah compliant banking and non-bank financial institutions, the Islamic capital market and the upcoming *Takaful* based insurance company.

Given the increasingly diversified asset portfolio of the banking sector, the various risks associated with this development have been highlighted along with their mitigants in terms of regulatory directives and efforts to align and integrate the financial sector with international financial standards. Keeping in mind the crucial impact of a sound macroeconomic environment on the performance of the banking sector, where any adverse development can potentially impair the asset quality, a detailed regression analysis examines the relationship between Non-Performing Loans and their determinants, at both the external (macroeconomic indicators) and internal (bank specific indicators) level.

Following on from last year, the insurance sector has been reviewed in detail, alongwith the developments in the non-bank financial industry and financial markets, which include the money and forex market in addition to the performance of the stock market.

As an interesting feature, a macroeconomic cum financial sector comparison of Pakistan with SAARC and ASEAN countries is also covered in the report.

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