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Pakistan's Banking Sector is resilient: Dr Akhtar

The Governor, State Bank of Pakistan, Dr Shamshad Akhtar has said that Pakistan's banking sector is quite resilient and has been and will be able to withstand different types of market shocks and adverse macro economic conditions. This capability has been achieved through continuous financial reform process distinctively pursued during the past few years. There should not be any cause for concern about the stability of the banking system in the coming days, she added.

In a press statement issued today, she pointed out that the banking system shows strong performance and holds a promising outlook, the investors maintained their confidence in the banking system and injected additional capital of around \$500 million since 2006 that coupled with retained earnings improved the capital base of the banks.

Dr Akhtar said that the banking sector has strong capital adequacy well above the minimum requirement. The capital adequacy ratio of the system is 12.1% as of June 08 that is well above the international benchmark. The nonperforming loans ratio and the ratio of non-performing loans to capital are also quite low and within acceptable ranges. "The infection ratio (net) in June 2008 has improved to 1.1% from 1.6 % in Dec-2006, signifying that the banks set aside more reserves out of their earnings to cover the increase in non-performing loans. Accordingly, the NPL coverage and capital impairment ratios have also improved," the SBP Governor added.

SBP Governor said that Pakistani banks largely focus on conventional lending and are not exposed to subprime credit instruments in the international market. The lending and investments of the banks are subject to the stringent prudential regulations of SBP that prohibit the banks from clean lending and investment in low quality assets. Further, the banks are required to recognize the loan losses and provide for these losses in line with the established best practices. State Bank of Pakistan through its on-site inspection and off-site supervision wings keeps a close watch on the state of each bank as well as the banking system in entirety for any risk to the stability of the banking system.

In 2007, SBP made loan provisioning requirements more stringent in order to create adequate cushions to withstand any potential credit adversity. Stress testing analysis of the system suggests that the system is capable to withstand variety of plausible shocks in major risk factors without losing its solvency, Dr Akhtar added.

She said that Pakistan's banking system has been showing steady growth, satisfactory operating performance, strong resilience towards major risk factors, and efficiency; reflecting upon the strong fundamentals that the system has developed during financial sector's reform process.

Even in the face of adverse factors arising out of macro environmental factors, the performance of the banking system on key financial soundness indicators continues to be reassuring.

Referring to some recent pressures on money market rates, she said that these mainly pertain to seasonal factor of cash withdrawal for Eid festival. In order to meet their expenditure requirements for Eid preparation, the depositors tend to withdraw large sum from the banking system, creating a liquidity crunch for a few days after Eid. This situation, however, reverses in due course after the Eid as the withdrawn funds ultimately retract to the banking system.

Public at large should cooperate and should help in channeling liquidity within the formal system. SBP Governor has urged the banks to launch aggressive deposit mobilization efforts.
