

July 30, 2009

SBP Governor prods commercial banks to increase credit disbursement to private sector

Syed Salim Raza, Governor State Bank of Pakistan has asked the commercial banks to increase lending to the private sector in order to provide necessary stimulus to the economy.

Presiding over a meeting of the Private Sector Credit Advisory Council (PSCAC) at the State Bank of Pakistan, Karachi this afternoon, Mr. Raza urged the banks to take a 'liberal view' of the economy and play a role of a catalyst in the economic growth of the country. "Liquidity in the banking system has never been as high as it is today," he said and added increased credit disbursement by banks will provide a stimulus to the economy.

SBP Governor acknowledged that due to the current global and domestic economic scenario the banks have become conservative and their terms of loans have become stringent. But he said the growth in non-performing loans (NPLs) of banks has slowed in the last quarter of 2008-09 fiscal year (FY09), which is a good omen.

He informed the meeting that overall private sector credit (PSC) after recording the growth of 16.5 percent during FY08 registered an increase of only 0.7 percent during FY09, mainly due to slowdown in economic activity coupled with the global recession and rising NPLs etc.

Mr. Raza explained that PSC during July- December 2008 grew by 7 percent and constituted 62 percent of total domestic credit. However, since December private sector credit has witnessed a sharp fall, with an accumulative negative growth of 6 percent during Dec-June FY09. "This behaviour is mainly due to slowing economic activity, rising NPLs, partial settlement of power sector debt etc.," he added.

Similarly, he pointed out that due to global recession country's exports were affected and on a cumulative basis (July-May FY09) it declined by \$202 million, thus reducing the demand for credit. In addition to this, commodity prices reached a peak in July 2008 and fell significantly thereafter, thus dampening the demand pressures in the economy and hence the need for import related credit utilization, he added.

He disclosed that loans for working capital exhibited a decline of 7.6 percent during FY09 mainly in the textile, manufacturing, commerce and trade sectors while fixed investment financing increased by 26.4 percent mainly for investment in manufacturing, electricity, gas & water and transport, storage & communication sectors. On cumulative basis, credit for export finance has registered a disbursement of Rs 15.4 billion as compared to Rs 19 billion last year, he added.

Mr. Raza pointed out that agricultural credit disbursement has shown a rising trend as it increased by Rs21.4 billion or 10 percent during FY09. Similarly, infrastructure finance also grew by 43 percent mainly due to capital investment in power generation and telecommunication sectors.

Dr Ikhtiar Baig, Advisor to the Federal Government on Textiles, made a presentation on behalf of FPCCI on the overall PSC scenario and made several recommendations to increase credit disbursement to businesses and export-oriented industries. He acknowledged SBP's supportive role towards industry, particularly the textile sector. He thanked the SBP Governor for providing one year moratorium to LTF loans and allowing a waiver of export refinance till Dec. 31, 2009 to the exporters whose export proceeds were overdue.

Representatives of banks informed that there is an issue of demand and that commercial banks are willing to provide credit to the private sector. They highlighted efforts taken by banks to restructure loans of their clients and to revive those units which are not able to pay their dues.

The meeting was attended, among others, by heads of commercial banks, Govt. officials, representatives of FPCCI and OICCI, besides Muhammad Kamran Shehzad, Deputy Governor State Bank and other senior SBP officials.
