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Banks' Lending to private sector shows 4% broad-based growth during Oct-Dec. quarter: State Bank Report

Commercial banks' lending to private sector during the October-December quarter of 2009-10 fiscal year (FY10) increased by 4.16% and unlike previous quarters the growth in credit off-take was widely shared by different leading sectors of the economy, according to State Bank of Pakistan's Quarterly Performance Review report of the Banking System.

According to the report which was released today, the growth in loans was well supported by expansion in deposit base that increased by 6.8 percent, while due to 10% growth in investments (62.3% Year-on-Year), the asset base of the system increased by 6.9 percent (16 % Y-o-Y), it added.

The report highlighted that equity injections and accumulation of year-to-date profits raised the equity base of the banking system. The risk-based Capital Adequacy Ratio (CAR) of the system due to stronger increase in Risk Weighted Asset slightly decreased to 14.1% (14.3% in Sep-09); the stress test results showed that capital base of the system is strong enough to withstand unusual shocks in major risk factors.

State Bank's report pointed that the slowdown in loan infection rate preserved the banks' earnings from significant dint, which has been the hallmark of last few quarters. Though more than proportionate growth in net-markup and non-mark up incomes augmented earnings, faster accumulation of operating expenses moderated the Return on Assets (ROA). The indicator, with slight contraction, remained almost stable at the last quarter's level but significantly higher than last year's results, it added.

"The overall earnings capacity of the system has remained fair; however, the earnings are largely concentrated in large and medium-sized banks, as most of the small-sized banks' bottom lines were either low or in red," it said and added that the pre-tax Return on Assets remained 1.5 percent (1.2 percent for CY- 08).

It said the country's banking system has experienced let up in the buildup of credit risk, which has significantly increased over the last six quarters, as the growth in banking system's Non-Performing Loans (NPLs) substantially pacified during the quarter under review.

The Report pointed out that the growth in NPLs of the banking system has slowed down while lending to private sector increased for the first time in CY09. It stated that NPLs of the banking system increased at a pacified rate of 2.5% (5.9% in Sep-09) to Rs432 billion.

"Accordingly, the infection and capital impairment ratios of the system lowered – net NPLs to loan ratio came down to 3.9 percent and net NPLs to capital ratio to 18.4 percent, while the provisioning coverage of NPLs improved to 71.0 percent," it added.

"In the coming quarters, the heightened credit risk and increased portfolio of infected loans will remain the major challenge for the banking system. Nevertheless, the results of stress tests reflect system's strong capacity to endure extraordinary shocks in major risk factors and avert the emergence of any systemic risk," it added.

The detailed Report is available at the following link:
http://www.sbp.org.pk/publications/q_reviews/qpr.htm
