

## **Pakistan's banking sector well placed to withstand modest shocks: Shahid Kardar**

The banking sector in Pakistan has been able to withstand headwinds from weakening macroeconomic fundamentals since 2007. Although banks face increased credit risk, the overall sector is well placed to withstand modest shocks as they build their inventory of government securities. This was stated by the Governor, State Bank of Pakistan, Mr. Shahid H. Kardar in a message embodied in SBP Annual Report on the working of the Bank (Performance Review) for the year 2009-10 (FY10) which was released today.

'Furthermore, in response to emerging dynamics in the macro-financial environment, the SBP has rationalized the minimum capital requirement and its implementation schedule, which will provide breathing space to the banking sector in this difficult macroeconomic environment', he said and added that the State Bank continued to strive for a balance between price stability and support for economic growth while safeguarding the soundness and stability of the financial system during FY10.

While highlighting some of the key policy measures undertaken by SBP during FY10, Mr. Kardar said that in response to a changing inflation outlook, SBP adjusted its stance on monetary policy. The decline in inflation during the initial months of FY10 and a relative improvement in the macroeconomic situation, allowed the central bank to ease its monetary policy stance, he said and added that as the growing fiscal deficit and unexpectedly low external receipts increased risks of a relapse into macroeconomic instability, and as inflationary pressures resurfaced in H2-FY10, SBP decided to pause the easing cycle and subsequently increased its policy rate in July and September 2010.

He said that the State Bank had increased the frequency of its monetary policy statements from four to six times a year. With a view to improving communication with the market the monetary policy framework itself experienced significant change when the SBP introduced an interest rate corridor in August 2009. "This framework has anchored short-term interest rates and improved liquidity management in the money market," he added.

The SBP Governor pointed out that the exchange rate during FY10 continued to reflect market conditions, which helped narrow the external imbalance and improve macroeconomic stability. Foreign exchange reserves, which were at \$12.425 billion at the close of FY09, increased by \$4.325 billion to reach an all time high of \$16.750 at the close of FY10, he said and added that SBP's decision to enhance banks' Foreign Exchange Exposure Limit also strengthened the market's capacity to handle larger volumes of foreign exchange transactions without additional volatility in the exchange rate.

Mr. Kardar said that the State Bank launched an Electronic Bond Trading Platform in January 2010 for the development of fixed-income markets. 'This system, which primarily focused on government securities, also has the capacity to support trading of corporate debt instruments,' he added.

The detailed Annual Report (Performance Review) can be accessed at SBP website [www.sbp.org.pk](http://www.sbp.org.pk).

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