

Governor's Message



The year 2018 remained quite eventful from both global and domestic perspectives. The global economic momentum softened, amid increasing trade tensions and tightening financial conditions. The domestic economy faced various idiosyncratic challenges. The country had to go through uncertainties associated with the political transition in the first half. Afterwards, the widening twin deficits and elevated inflationary pressures necessitated policy measures for stabilization, which, as expected, slowed down the economic momentum. Resultantly, the investors' sentiments remained subdued and financial markets, particularly the foreign exchange and equity markets, observed increased volatility. In response to the market dynamics, the local currency depreciated and the KSE-100 index dipped. The money market, however, operated smoothly by virtue of the interest rate corridor mechanism and improved liquidity conditions.

Amid these challenges, the financial institutions, however, remained sound and facilitated the improvement in financial intermediation. Banks, the key player in the financial sector, carried forward the rising momentum in total loans with 22 percent growth, while maintaining strong solvency and liquidity profiles. Their capital adequacy ratio at 16.2 percent stood well above the international benchmark and the non-performing loans ratio decreased to 8 percent, despite some increase in NPLs during 2018. Moreover, the financial inclusion broadened due to joint efforts of the SBP and its regulated financial institutions. Particularly, to pursue the National Financial Inclusion Strategy, SBP introduced policy measures to enhance financial access to priority areas of SME, Housing and Agriculture, and to promote cross cutting themes of Islamic Banking and Digital Financial Services.

State Bank, in line with its strategic objective of ensuring financial system stability, under "Vision 2020", is closely monitoring global and domestic developments and responding appropriately where necessary. The current Financial Stability Review provides a detailed assessment of the emerging risks and highlights measures taken to beef up the financial sector stability. Among the emerging challenges, SBP stepped up its efforts to strengthen the overall AML/CFT regime and fortified the cyber resilience. In addition, SBP progressed towards Macro-Prudential Policy Framework by introducing regulatory guidelines for the designation of Domestic Systemically Important Banks (DSIBs), improving coordination among financial sector regulators and stepping up efforts for the establishment of an overarching National Financial Stability Council (NFSC).

I hope that the stakeholders would find this report helpful and informative. Any suggestions, comments and feedback are welcome.

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