Governor's Message

The year 2020 was exceptionally challenging as the COVID-19 pandemic—a once in a century event—triggered the deepest global economic recession since the Great Depression. Besides significant economic disruptions, loss of lives has been enormous worldwide. Anticipating heightened risks, authorities around the globe moved swiftly to enact a range of policy measures, including monetary easing, fiscal support, and rationalization of regulatory controls to support economic activity and preserve financial stability. Resultantly, turmoil in global financial markets proved short-lived and contraction in the global economy remained relatively contained, although the impact varied across countries depending upon the severity of the pandemic and availability of economic cushions.

Pakistan experienced two coronavirus waves during CY20; however, the impact on the economy has been relatively mild. Encouragingly, the output loss of 0.47 percent during FY20 was one of the lowest among Emerging Market and Developing Economies. To ward off the adverse impact, SBP also introduced an aggressive set of stimulus measures, of around 5 percent of GDP to cushion the slowdown in growth and maintain financial stability. In the wake of the swift and comprehensive policy response, receding COVID-19 intensity and easing of associated mobility restrictions, signs of economic recovery emerged in the second half of CY20. The Large Scale Manufacturing Index rebounded and Business Confidence Index became positive in August-2020, and further improved afterwards. Also, the current account posted the best result since CY03 as it turned into a surplus in CY20. The economic buoyancy persisted, and even amid an intense third wave, the economy is estimated to post a broad-based growth of 3.94 percent during FY21.

Despite the enormous challenges and vulnerabilities, the domestic financial sector remained resilient and performed remarkably well. After observing acute volatility for a brief time like the rest of the world, markets recovered quite fast, while the financial system continued to provide financial services and liquidity to the government, businesses and households. Specifically, the industry, with the support of SBP, capitalized on the unique opportunity presented by COVID-19 by accelerating the pace of digitization that allowed provision of services in a safe, convenient and hygienic manner.

The banking sector observed a healthy rise in profitability. The enhanced earnings along with capital buffers built over the years further improved the solvency and helped maintain resilience of the sector. The SBP support measures also facilitated banks to continue providing credit and keep credit risk under check. The non-bank financial sector demonstrated a mixed performance, with mutual funds witnessing net inflows. While the performance of the non-financial corporate sector improved on the back of lower financial costs and greater efficiency in administrative expenses.

Going forward, risks to financial stability will be largely driven by COVID-19 dynamics and attendant economic consequences. The intensity and duration of the pandemic, the speed of immunization and its effectiveness against new variants of virus, and success in preserving economic resilience will be the key determinants of financial stability in the near term. Stress test results also show that the banking sector maintains reasonable resilience, even against adverse economic conditions. Although, the overall policy landscape is quite dynamic and complex, the SBP remains vigilant to any risks emerging on the global and domestic fronts and will stand ready to take necessary measures to ensure financial system stability.

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