Governor's Message

The year 2021 marks the beginning of the end of the pandemic and a revival in economic activity. With the extensive inoculation drive as well as a sustained and coordinated policy response, the impact of the pandemic is fading and the social and economic life across the globe is gradually returning to normal. Global economic recovery has remained strong, despite the emergence of new COVID variants and rising global prices mainly due to supply chain disruptions. Global financial markets in general reflected optimism though they experienced some bouts of increased volatility particularly in the second half of CY21.

Pakistan's policy and administrative measures to curb COVID-19 and mitigate its impact on the economy generally yielded the desired dividends. Resultantly, the domestic economy successfully sailed through a couple of virus waves during CY21. The economy posted a strong growth of 5.7 percent during FY21, which was one of the highest among selected Emerging Markets and Developing Economies. The momentum continued in FY22 as the economy is estimated to post a broad based growth of 6.0 percent. Industrial activity rebounded and Business Confidence touched Multi-year high in mid of CY21. However, with the strong rebound in economic activity and a sharp rise in global commodity prices, the current account deficit increased in the second half of CY21 and inflationary pressures became more persistent. Accordingly, SBP proactively took various monetary policy and macroprudential measures to ward off the emerging imbalances and preserve financial stability against concomitant risks.

Despite the evolving macroeconomic challenges, the domestic financial sector remained resilient and performed reasonably. Financial markets functioned smoothly, and the strong capital and liquidity buffers helped banks to cater to credit needs of the economy. Credit risk remained contained as most of the asset quality indicators of banks improved. The healthy deposits growth enabled banks to expand their earning asset base. This growth, among others, has been facilitated by an increase in the pace of digitalization of financial services which got traction due to surge in demand as well as SBP's initiatives and enabling regulatory framework. In particular, the launch of person-to-person instant payment under SBP's *Raast* initiative, was a notable landmark in the digital payments' landscape. Further, the Roshan Digital Account initiative, introduced in late CY20 to provide a convenient way of digital banking services to Pakistani Diaspora, crossed 400 thousand accounts with cumulative inflows of above USD 4 billion by end Apr-2022. Like the banking segment, the non-bank financial sector also demonstrated notable growth, with both mutual funds and lending NBFCs witnessing growth in assets. The performance of non-financial corporate sector also improved with better earnings that enhanced its repayment capacity.

In policy landscape, the macroprudential policy framework has been further strengthened, particularly with a clear articulation of *Stability of the Financial System* as one of the SBP's objectives in the State Bank of Pakistan Act, 1956 as amended in January, 2022, introduction of regulations for lender of last resort (LOLR) facility and adoption of a forward looking risk-based supervisory framework for the banking sector.

Going forward, risks to financial stability are contingent upon the strength of external buffers, policy continuity, and overall macroeconomic conditions in the context of developments on geo-political front in Europe, global commodity prices and financial conditions. Stress test results show that banking sector maintains a reasonable resilience against various hypothetical adverse economic shocks over a

protracted horizon. Amid the dynamic and challenging environment both at domestic and global fronts, SBP is vigilant to the emerging risks and stands ready to take necessary measures to achieve the statutory objectives of price stability, financial stability and economic growth.

Dr. Murtaza Syed