

Appendix A

SBP – Regulatory and Supervisory Developments in CY-2022

The State Bank of Pakistan (SBP), as one of its objectives under the State Bank Act, 1956, has the responsibility to contribute to the stability of the financial system of Pakistan.²²⁰ SBP, as the regulator of key financial institutions and payment systems (i.e. Banks, Microfinance Banks, Development Finance Institutions, Exchange Companies, Payment System Operators and Providers (PSOs/PSPs), and Electronic Money Institutions (EMIs)), plays a crucial role in the supervision and development of the financial sector of the country to ensure financial stability and support growth.

The developments in the global and domestic financial conditions during CY22 posed major challenges for financial sector/ institutions across the world including Pakistan. The risks to global financial stability increased considerably during the year under review owing to geopolitical conflicts, deteriorating economic outlook and multi-decade high inflation across countries. The rise in geopolitical and economic uncertainty along with monetary tightening by major central banks across the world led to tightened global financial conditions.²²¹ The situation was especially challenging for the emerging markets and developing economies (EMDEs) as they are exposed to multi-faceted risks driven by high external borrowing cost, high debt levels, persistently high inflation, weakening economic fundamentals and associated change in global risk sentiment. As such, these vulnerabilities required continuous efforts on part of the central bank to monitor and assess the emerging risks and take appropriate measures for stability and soundness of the financial sector.

SBP kept a close watch on the developments which could have implications for financial stability and undertook various measures to strengthen its policy framework during CY22 and mitigate the emerging systemic risks. A brief overview of SBP's measures for contributing to the financial stability objective is given below.

Measures to Promote Financial Stability – A Macro Perspective

Mandate and role of SBP and in respect of financial stability: Necessary amendments were made in the SBP Act in Jan-22 to, inter alia, formalize the mandate and role of SBP in respect of financial stability (i.e., to contribute to the stability of financial system), formulation and implementation of macro-prudential policy measures, resolution of distressed banks, cooperation with other regulators, etc. Moreover, the scope of emergency liquidity assistance tool (i.e., LOLR facility) was enhanced to cater the interim liquidity stress in systemically important banks and thus prevent a bank's failure and any consequent financial crisis that could emerge from such stress.

Crisis preparedness and management framework:

The bank resolution and crisis management framework at SBP was thoroughly reviewed in line with good practices established worldwide. In the light of this review, necessary improvements are being made in available tools, institutional arrangements, and organizational processes. To augment the crisis management capacity of the staff and to test the effectiveness of institutional arrangements and

²²⁰ [State Bank of Pakistan Act, 1956.](#)

²²¹ International Monetary Fund. (2022). Global Financial Stability Report. *Washington*, October. For details, please

visit <https://www.imf.org/en/Publications/GFSR/Issues/2022/10/11/global-financial-stability-report-october-2022>.

processes, a crisis simulation exercise was held with the technical assistance of Toronto Centre.

Deposit Protection Corporation (DPC) being a key player of financial safety net took significant steps to strengthen its deposit protection capacity. It has employed a sound investment policy based on the principles of safety and liquidity and developed necessary mechanism and arrangements to discharge its obligations in orderly manners. Such measures resulted in the stable growth in deposit protection fund that enabled the DPC to double the protection amount to PKR500,000, providing comfort and assurance to the depositors and adding to financial stability.

Systemically important banks: Global financial crisis highlighted the importance of enhanced supervision of systemically important financial institutions. Accordingly, the standard setting bodies and supervisors across the globe are continuously reviewing the supervisory frameworks and reshaping supervisory policies to enhance resilience of the systemically important banks. In line with emerging best practices, particularly the indicator based approach of Basel Committee of Banking Supervision (BCBS), SBP developed a framework for designation and supervision of Domestic Systemically Important Banks (D-SIBs) in April 2018.²²² In view of developments over the last few years on international and domestic fronts and performance of banks, SBP revised the D-SIBs framework during the year under review and the requirement of Higher Loss Absorbency (HLA) capital surcharge for designated D-SIBs in the form of additional Common Equity Tier 1 (CET1) was revised to align with the international best practices.²²³

Implementation of IFRS-9 as a countercyclical tool: The International Accounting Standards Board (IASB) issued International Financial Reporting Standard-9

on Financial Instruments i.e., IFRS 9 effective from January 1, 2018. This standard, inter alia, introduces the concept of expected credit loss provisioning, which brought major changes in the way the financial institutions (FIs) are to assess and provide prospective impairments losses in all of their financial instruments, including regular loans and investments. In line with international best practices, SBP finalized and issued Application Instructions on IFRS-9 for ensuring smooth and consistent implementation of the Standard. Keeping in view the prevailing circumstances, the effective implementation date of IFRS-9 has been extended. All banks/DFIs/MFBs are required to implement IFRS-9 standard from January 01, 2024. Further, SBP has already issued IFRS-9 compliant format for quarterly/ half yearly and annual financial statements on February 09, 2023. Nevertheless, early adoption of the Standard is encouraged.^{224, 225}

AML/CFT regime and completion of FATF Action Plan under increased monitoring regime: Pakistan was placed among jurisdictions under increased monitoring list by Financial Action Task Force (FATF) for deficiencies in AML/CFT regime in 2018. However, Pakistan showed commitment to work on addressing these deficiencies under a comprehensive action plan. SBP was the lead for action points related to Supervision of Financial Institution and implementation of Targeted Financial Sanctions in financial institutions. SBP prepared a comprehensive report on all relevant action points and submitted it to Joint Group (JG) of FATF and APG officials for this purpose. Subsequently, SBP officials also participated in face-to-face meetings held with JG officials. The FATF team conducted an on-site visit of Pakistan in August 2022 to assess Pakistan's progress under the FATF's Action Plans of 2018 and 2021. Following the joint efforts of SBP and other government institutions, Pakistan was finally

²²² [BPRD Circular No. 04 of 2018.](#)

²²³ [BPRD Circular Letter No. 34 of 2022.](#)

²²⁴ [BPRD Circular No. 07 of 2023.](#)

²²⁵ [BPRD Circular No. 02 of 2023.](#)

removed from the list of countries under increased monitoring in October 2022.

Introduction of Digital banks: Technological advancement plays a pivotal role in the development of the financial sector. SBP is cognizant of this and encourages technology-based innovations to transform the financial ecosystem in a sustainable manner. SBP has always endeavored to provide an enabling regulatory landscape for nurturing digital innovations while ensuring stability, safety and soundness of the country's banking sector. During the year under review, SBP introduced a licensing and regulatory framework for setting up digital banks in Pakistan in line with international best practices.²²⁶ The primary objectives of this framework is to leverage on digital banks for the enhancement of financial inclusion, provision of cost effective digital financial services especially to unserved and underserved segments of the society and foster a new set of customer experience. This initiative by SBP garnered interest from various domestic and international players. SBP received twenty applications to set up digital banks from a range of diverse players including commercial banks, MFBs, EMIs and Fintech firms. As a first step, SBP issued no objection certificates (NOC) to five of these applicants after a thorough and rigorous assessment process as per the requirements of the framework. Following the NOCs, applicants are required to incorporate their firms as public limited company with Securities and Exchange Commission of Pakistan (SECP). After that, they will approach SBP for an In-Principle Approval for demonstrating operational readiness and for commencement of operations under the pilot phase. Subsequently, these applicants will be able to commercially launch their operations after obtaining SBP's final approval.²²⁷

²²⁶ [BPRD Circular No. 01 of 2022.](#)

²²⁷ [SBP Press Release, dated January 13, 2023.](#)

²²⁸ [BPRD Circular Letter No. 04 of 2022.](#)

Review of prudential standards on exposure to equity and capital market: SBP revised the sections of prudential regulations for commercial/ corporate banking pertaining to exposure of banks in shares and TFCs/ Sukuk during the year under review. The investment limits of banks/ DFIs were previously linked with their balance sheet equity (which is calculated on going-concern assumption); now limits are linked with Tier-I Capital of the institutions under Basel capital standards (which uses more conservative approach of gone concern for calculating the capital). Banks/ DFIs can also invest in Startups up to 5 percent of their Tier-I Capital or PKR 500 million, whichever is lower. For REITs, a bank/ DFI can invest in them up to 5 percent of its Tier-I Capital or 15 percent of paid-up shares of Investee Company, whichever is lower.²²⁸

Liquidity management of DFIs – eligibility for OMOs: SBP conducts OMOs to keep the money market overnight repo rate close to the SBP Target "Policy Rate". Previously, all Scheduled Banks and Primary Dealers were allowed to participate in these OMOs.²²⁹ During the year under review, SBP also allowed DFIs to participate in OMOs with a view to facilitate them in their liquidity management.²³⁰

Systemic Risk Survey: SBP conducts Systemic Risk Surveys (SRS) on a biannual basis to gauge and assess the views of the market participants and independent experts about the existing and prospective risks to financial stability and effectiveness of its policy framework. In this regard, the 9th and 10th waves of the survey were conducted during CY22, while the 11th survey was conducted in Jan-23 (See **results of the 11th wave in Box 1, Overview section**).

Publication of SBP's assessments of financial stability: SBP regularly shares its assessment of financial stability with external stakeholders to keep them abreast with emerging risks,

²²⁹ [DMMD Circular No. 12 of 2017.](#)

²³⁰ [DMMD Circular No. 11 of 2022.](#)

resilience of the system and its latest financial soundness performance. In this connection, SBP published Quarterly Compendium of Banking Statistics and FSIs, Mid-year Performance Review of banking sector for H1CY22, annual Financial Stability Review CY21, and Governor's Report to the parliament for FY22.

International cooperation: Exchange of information and experiences helps in better understanding the challenges faced by financial systems. As such, SBP played an active role in information sharing by contributing to various regional and international studies and sharing feedback on different international surveys. SBP also participated in FSB Regional Consultative Group for Asia (RCG Asia) meetings virtually, where vulnerabilities and financial stability issues affecting Asia were discussed, along with other emerging issues e.g., risks arising from climate change, cyber security, and cross-border payments, etc.

The Governor-SBP, was also appointed as the Chairman of the Council of Islamic Financial Services Board (IFSB), Malaysia for the year 2022. His appointment was approved by the IFSB Council in its 39th meeting held on December 9, 2021 in Abu Dhabi, United Arab Emirates (UAE). He had been serving earlier as the Deputy Chairman of the IFSB Council for the year 2021. Governor-SBP also served as the Chairman of the IFSB General Assembly for the year 2022. The General Assembly is the representative body of all the members of the IFSB, namely Full Members, Associate Members and Observer Members.²³¹

Financial Stability – A Micro Perspective

The following leading improvements were made in regulatory and supervisory processes for regulated institutions:

Risk-based supervision (RBS) framework: SBP implemented forward-looking risk-based supervision framework that aims for early

identification of risks and problems in regulated entities and taking corrective measures promptly. To support RBS framework, SBP also developed different business intelligence tools, e.g., Bank Risk Analysis and Monitoring (BRAM) system for monitoring of regulated entities using key financial indicators and financial information reported by the FIs to SBP. Moreover, Credit Risk Analysis and Monitoring (CRAM) system has been instituted for monitoring of credit risk of regulated entities using borrower level data reported by the FIs. These systems are being upgraded with enhanced features, and capacity building sessions are being conducted for the supervisory staff for effective utilization of these tools to encourage data driven supervisory approach. A dedicated institutional arrangement was put in place to review and assess the microenvironment and sectoral analysis for informing the profiles and direction of risks faced by the institutions.

Review of Shariah-compliance assessment manual: In the backdrop of transformation of SBP's supervisory regime and evolution of regulatory framework, SBP conducted a holistic review of the Shariah-Compliance Assessment Manual to synchronize it with the RBS Manual and incorporate relevant instructions since last review of the manual and defining broader scope of Shariah Rules and Principles for Supervisors.

Regulatory approval system: SBP developed and rolled out a Regulatory Approval System (RAS) in 2020 to strengthen the organizational efficiency and effectiveness.²³² RAS provides a secured online portal to regulated entities to submit their requests and proposals and to subsequently receive regulatory decisions in digital and secured mode. RAS was initially implemented for the Banking Policy & Regulations Department (BPRD) and Exchange Policy Department (EPD). Similarly, RAS for Payment Systems Policy & Oversight

²³¹ [SBP Press Release, dated December 10, 2021.](#)

²³² [EPD Circular Letter No. 08 of 2020.](#)

Department (PSP&OD) was completed and rolled out for industry-wide implementation during the year under review.²³³

In another effort to promote the use of digital channels to enhance operational efficiency and improve ease of doing business, SBP, during the year under review, digitized and centralized the functions of Export Finance Scheme (EFS)/Islamic Export Refinance Scheme (IERS) at SBP BSC Karachi. A new operational mechanism was developed on SBP's online RAS portal in consultation with banks, which will serve as an online platform for transmission of EFS related information between SBP BSC and banks. Banks were also advised to strengthen their internal controls for processing of EFS/IERS cases to avoid operational, reputational, legal or any other risk.²³⁴

Monitoring and assessment of fraud and cybersecurity risks: SBP monitors digital banking frauds and performs assessments of high-risk institutions. SBP introduced a new format for collection of data on digital banking frauds and scams to understand the digital channels exploited by fraudsters in different financial products and services.²³⁵ SBP also regularly engages with various banks and MFBs to take specific measures to reduce the number of digital banking frauds.

SBP also performs both offsite and onsite cybersecurity assessment to monitor cyber security risk in the industry. Cyber Hygiene controls and practices are essential in providing baseline fortification against cyber-attacks. In view of this, SBP initiated assessment of Cyber Hygiene practices in the industry. Further, considering the significance of IT Change Management, SBP engaged with some financial institutions to eliminate deficiencies, where observed, to improve the related controls and practices.

²³³ [PSPOD Circular No 02 of 2022.](#)

²³⁴ [IH&SMEFD Circular No. 01 of 2022.](#)

²³⁵ [BC&CPD Circular Letter No. 03 of 2022.](#)

Monitoring of financial markets and platforms: SBP continuously works to ensure smooth functioning of financial markets. After observing elevated volatility in exchange rate during the year under review, SBP enhanced the monitoring of operations of the exchange companies, inter alia, to ensure market discipline, discourage speculative activities in currency market and proceeded against delinquent companies.

SBP issued an advisory against Illegal Offshore Foreign Exchange Trading Websites, Mobile Applications and Platforms, wherein authorized dealers (banks and exchange companies) were advised to undertake necessary measures to stop payments to all such forex trading platforms.²³⁶ SBP evaluated the modus operandi of International Electronic Trading Platforms such as Octa FX, Exness, XM, EasyForex, etc. for cross border deposit and withdrawal of foreign exchange by the public. These digital platforms attract people through social media advertisements to buy or invest in their products or services e.g., foreign exchange trading, margin trading, contract for differences, etc.

Measures to promote digital finance and augment payment systems

Instant Payment System i.e., Raast: SBP had introduced Pakistan's Instant Payment System "Raast" to offer instant, reliable and free person-to-person payment services to the people of Pakistan with the objective of promoting digital financial services and financial inclusion. The first phase of the system, "Raast - Bulk Payments", was launched in January 2021 and is live since then. The second phase of Raast, which enables instant Person-to-Person (P2P) fund transfers and settlement, was launched during the year under review.²³⁷ The Raast P2P facilitates individuals to transfer payments to other individuals

²³⁶ [EPD Circular Letter No. 08 of 2022.](#)

²³⁷ [DI&SD Circular No. 1 of 2022.](#)

including their family members or friends across the country in an instantaneous and secure manner.

Mobile App Security Guidelines: Mobile payment applications (mobile apps) have become an alternate payment channel for a growing number of users. SBP regulated entities have been offering innovative products and services through mobile applications. Consequently, opportunities for the fraudsters to exploit vulnerabilities in mobile apps and defraud the customers have also increased manifold. In line with international standards and best practices, SBP developed and issued comprehensive Mobile App Security Guidelines providing baseline security requirements for app owners to ensure confidentiality and integrity of customer data and availability of app services in a secure manner when developing payment applications for mobile or other smart devices.²³⁸

Standardization of QR Code Based Payments in Pakistan: In a major push to accelerate digitization of retail payments, SBP issued Pakistan's indigenous Standards for Quick Response (QR) code-based payments in March 2022. The QR standards have been separately issued for both Person-to-Person and merchant-based payments that will also complement Raast. With the issuance of a single countrywide QR code standard, Pakistan joins the list of countries who have taken similar steps to promote low-cost digitization of payment services, especially at retail level. The objective of the standards was to ensure full interoperability among various QR issuing institutions and to provide a single QR on which information of multiple payment schemes and processors can be embedded, allowing the customer to choose from a range of available schemes. This step will facilitate customers in making payments digitally to people and

merchants as well as help merchants to accept payments digitally and with minimal ancillary costs.²³⁹

Service Standards for Enablement of Minimum Set of Services on Mobile Applications for RDA Customers: SBP, in 2020, launched Roshan Digital Account (RDA) scheme, in a bid to enable Non-Resident Pakistanis (NRPs) to open and operate account without lengthy documentation, and from the comfort of their homes. The RDA initiative has been a key stepping stone for SBP to provide a mechanism for Digital Onboarding of Resident Pakistanis as well, which was later launched in 2021. In a bid to enhance the user experience for existing and prospective RDA clientele globally, SBP issued instructions to RDA banks in August 2022 for enabling a minimum set of services including client onboarding platform, transactional facility, investment services and financing products through a fully functioning bank's mobile application, that becomes a one-stop solution for the RDA customers.²⁴⁰

Foreign Exchange Policy and Operations:

The stability of the external account is crucial for financial and economic stability of the country. SBP, during the year under review, undertook various measures to support the balance of payment by encouraging inflows and better management of scarce foreign exchange resources.

Encouraging Remittances: SBP together with the Government of Pakistan has introduced various policy initiatives over the time to facilitate the flow of home remittances through formal channels. To further encourage the exchange companies (ECs) to mobilize home remittances, the government started an incentive program of PKR 1 for each USD of home remittances surrendered in interbank market, provided that the ECs surrender 100%

²³⁸ [PSPOD Circular No 01 of 2022.](#)

²³⁹ [DI&SD Circular Letter No. 1 of 2022.](#)

²⁴⁰ [DI&SD Circular Letter No. 03 of 2022.](#)

of the foreign exchange received as inward home remittances.²⁴¹

To facilitate the disbursement of proceeds to expatriates' families in Pakistan, SBP allowed ECs to enter into agreements with the authorized dealers (ADs) to act as their sub-agents for disbursement of home remittances in PKR to beneficiaries, received by ADs through their international tie-ups.²⁴² Further, SBP advised ADs to digitize the process for issuance and verification of the Proceeds Realization Certificates (PRCs) on account of receipt of remittances from abroad through ADs.²⁴³

Foreign Reserves Management: To provide immediate support to the balance of payments, SBP temporarily mandated the prior permission of SBP before initiating transactions for import of certain goods.^{244 & 245} These instructions were later on withdrawn. However, ADs were encouraged to prioritize essential imports, energy imports, imports of export-oriented industry, imports for agricultural inputs, deferred payment/ self-funded imports, and imports for export-oriented projects near completion.²⁴⁶

Foreign Exchange Policies: In an effort to further strengthen the regulatory regime for ECs and encourage customers to use banking channels for purchase of foreign exchange from ECs, SBP amended the existing regulations prescribing the scope of business of ECs during the year.²⁴⁷

To promote documentation and transparency in the foreign exchange transactions, SBP directed that currency exchange transactions between ECs, ECs-B Category and franchises of ECs shall be conducted through their bank accounts.²⁴⁸ SBP also increased the frequency of

transaction data reporting by ECs and ECs-B Category to enhance the monitoring.²⁴⁹

To facilitate foreign portfolio investment in the country through International Broker Dealers (IBD), SBP decided to allow general permission to ADs for remitting the share of commission to such IBDs by Local Broker Dealers (LBD).²⁵⁰

Environment/ Climate Change and Social Risks:

SBP issued Green Banking Guidelines (GBG) in October 2017 to safeguard against environmental risks emerging from banks and DFIs' businesses and operations. These guidelines deal with the areas of risk management, business facilitation, and own impact reduction. These were introduced with an aim to reduce potential losses of banks and DFIs through proper management of environmental vulnerability of their financing portfolios. These could also augment banks' and DFIs' profitability by increasing investments in relatively untapped segments of environmentally-compliant, resource-efficient and socially-responsible businesses.²⁵¹ During the year under review, SBP issued the Environmental and Social Risk Management (ESRM) Implementation Manual. The Manual provides tools and procedures to strengthen and accelerate the implementation of the risk management section of Green Banking Guidelines. The key features of the Manual include more focus on social and climatic risks, which are becoming relevant and crucial for Pakistan, a comprehensive Environmental & Social Management System (ESMS) for systematic guidance of banks and DFIs, a robust and quantitative risk rating system, an E&S Due Diligence checklist, supervision checklist, and a Green Banking Monitoring & Evaluation Reporting Template for reporting of

²⁴¹ [EPD Circular Letter No. 03 of 2022.](#)

²⁴² [EPD Circular Letter No. 12 of 2022.](#)

²⁴³ [FE Circular No. 05 of 2022.](#)

²⁴⁴ [EPD Circular Letter No. 09 of 2022.](#)

²⁴⁵ [EPD Circular Letter No. 11 of 2022.](#)

²⁴⁶ [EPD Circular Letter No. 20 of 2022.](#)

²⁴⁷ [EPD Circular Letter No. 15 of 2022.](#)

²⁴⁸ [EPD Circular Letter No. 17 of 2022.](#)

²⁴⁹ [EPD Circular Letter No. 19 of 2022.](#)

²⁵⁰ [FE Circular No. 02 of 2022.](#)

²⁵¹ [IH&SMEFD Circular No. 08 of 2017.](#)

banks/DFIs' progress on implementation of the guidelines (including ESRM activities) to SBP. Banks and DFIs are expected to fully implement the ESRM within three years of issuance of the Manual.²⁵²

Islamic Banking:

With an aim to further strengthen Shariah compliance framework and harmonize the Shariah practices in Islamic banking industry, SBP adopted 'Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)' Shariah Standards. The AAOIFI Shariah Standards No. 10 (Salam and Parallel Salam), No. 11 (Istisna'a and Parallel Istisna'a), No. 25 (Combination of Contracts) and No. 50 (Irrigation Partnership (Musaqat) were adopted subject to certain clarifications and amendments, during the year under review. These standards were adopted in addition to existing regulations, instructions and directives that have been issued by SBP from time to time.²⁵³

During the year under review, Federal Shariah Court (FSC) ordered the fuller implementation of Islamic banking and Islamization of the economy by end 2027. SBP has been committed towards the development of Islamic banking system in the country. In order ensure transition of banking system to Shariah-compliant mode, SBP has taken a number of measures over the years which are given in Box 3.2.

Development Finance and Financial Inclusion:

Under the SBP Act, 1956, SBP has the objective to support the government's general economic policies and contribute to the development and fuller utilization of Pakistan's productive resources. As such, SBP undertakes various initiatives aiming at sustainable economic growth in Pakistan's economy. These initiatives

are mainly targeted at the agricultural sector, micro, small and medium enterprises, and increasing access to financial services.

SBP, in February 2022, published report viz. Indicative Credit Limits and Eligible Items for Agriculture Finance and revised the indicative credit limits for agriculture financing to align the same with the input requirements of agriculture sector. The report will also facilitate provincial planning departments in estimating the total financial and credit requirements of respective provinces and regions for farm and non-farm sectors.²⁵⁴

In August 2022, SBP also revised the per acre indicative credit limits for agriculture financing considering the increase in cost of production i.e., seeds, fertilizers, fuel, labor etc. The increased indicative limits were aimed at enabling farmers to obtain more credit from banks and enhance agriculture productivity through adequate use of inputs.²⁵⁵

SBP amended the prudential regulations for agricultural financing to enhance the maximum limit of clean financing for agriculture and the exposure limit for the requirement of financial statements. These amendments were aimed at enabling banks and DFIs to enhance flow of credit to farm and non-farm sectors.²⁵⁶

To facilitate recovery of farmers in the rain and flood affected areas, SBP facilitated government of Pakistan in introducing three schemes including Markup Waiver Scheme for subsistence farmers, Markup Subsidy Scheme for revival of agriculture/livestock sectors, and Interest Free Loans and Risk Sharing Scheme for Landless Farmers.²⁵⁷

SBP, on behalf of the government, has allocated additional funds to the existing Line of Credit (LoC) facility housed at SBP. The said amount will be disbursed to the flood affected areas

²⁵² [IH&SMEFD Circular Letter No. 12 of 2022.](#)

²⁵³ [IBD Circular No. 01 of 2022.](#)

²⁵⁴ [AC&MFD Circular No. 1 of 2022.](#)

²⁵⁵ [AC&MFD Circular Letter No. 01 of 2022.](#)

²⁵⁶ [AC&MFD Circular Letter No. 02 of 2022.](#)

²⁵⁷ [AC&MFD Circular No. 03 of 2022.](#)

after its allocation in Public Sector Development Program (PSDP). The primary purpose of this facility is to revive livelihood and economic activities in the affected areas by alleviating the liquidity pressure of microfinance institutions through market mechanism.

SBP also supported government in the implementation of Markup Subsidy and Risk Sharing Scheme for Farm Mechanization during the year under review. The scheme was introduced to enhance agriculture productivity and food security in the country.²⁵⁸

SBP in collaboration with Prime Minister Youth Office launched Prime Minister Youth Business & Agriculture Loan Scheme (PMYB&ALS) in December 2022 to provide business and agriculture loans. The government is also providing risk coverage of up to 50 percent on the disbursed portfolio of banks. Realizing the difficulties of entrepreneurs and farmers in arranging collateral, collateral requirement for loans up to PKR 1.5 million was waived. The scheme put greater focus on women entrepreneurs as 25% of loans were allocated for female youth entrepreneurs.²⁵⁹

To accelerate the process of financial inclusion of SMEs in Pakistan, SBP provided full support to government of Pakistan in formulation of National SME Policy 2021 which was notified in February 2022. In line with targets prescribed in National SME Policy 2021, SBP assigned the SME financing targets to all banks and DFIs for next four years i.e., CY-2022 to CY-2025. SBP is closely monitoring the performance of banks and DFIs against the assigned targets.²⁶⁰

SBP also adopted a unified national SME definition prescribed in SME Policy 2021, which is based on single criteria of annual sales turnover.²⁶¹ The unified SME definition will

help SMEs to benefit from available government programs and fiscal incentives. It will also help in designing targeted programs to serve specific categories of SMEs based on their activities and performance in the light of national development perspectives.

To improve access to finance for SME sector, SBP launched a Challenge Fund for SMEs (CFS) to support innovative solutions for SME banking in the country. This fund in the form of grant was aimed at facilitating banks in developing innovative technological solutions to cater to the banking needs of SME sector. This initiative will also enable the banks to increase the access and usage of digital financial services by SME sector.²⁶²

SBP had enhanced the maximum loan sizes along with corresponding borrowers' eligibility criteria under all loan categories to adequately serve financial needs of microenterprises and housing finance borrowers in 2014 and 2020. During the year under review, SBP revised the Prudential Regulations for Microfinance Banks to align classification and provisioning requirements with enhanced loan sizes.²⁶³

SBP, during the year under review, enhanced the scope of the Export Finance Scheme by introducing a Rupee-based discounting facility for export bills and receivables.²⁶⁴

SBP also linked the end user markup rates under export finance and LTFF schemes to SBP policy rate i.e., keeping these rates at 3 percent below policy rate. Accordingly, with any change in the policy rate, markup rates for export refinance and LTFF will be revised automatically.²⁶⁵

In February 2022, SBP revised pricing of Tier 1 of Mera Pakistan Mera Ghar (MPMG) scheme downward to improve affordability of low-cost

²⁵⁸ [AC&MFD Circular No. 04 of 2022.](#)

²⁵⁹ [IH&SMEFD Circular No. 12 of 2022.](#)

²⁶⁰ [Quarterly SME Finance Review, Dec 2022.](#)

²⁶¹ [IH&SMEFD Circular No. 05 of 2022.](#)

²⁶² [IH&SMEFD Circular No. 04 of 2022.](#)

²⁶³ [AC&MFD Circular No. 02 of 2022.](#)

²⁶⁴ [IH&SMEFD Circular No. 03 of 2022.](#)

²⁶⁵ [SH&SFD Circular No. 13 of 2022.](#)

housing for eligible borrowers who qualified the requirements for allotment of housing units in Naya Pakistan Housing & Development Authority (NAPHDA) projects.²⁶⁶

During the year under review, SBP also increased mandatory targets for housing and construction finance to at least 7 percent of banks' domestic private sector advances.²⁶⁷ However, these mandatory targets were converted to indicative targets with an

extension in time period of six months.²⁶⁸ Later on, on the advice of government, disbursement of financing under MPMG was suspended with effect from June 30, 2022. However, banks were allowed to disburse financing to customers who had already availed partial disbursement or were at advance stage for availing disbursement at the time of suspension of MPMG on June 30, 2022.²⁶⁹

²⁶⁶ [IH&SMEFD Circular Letter No. 03 of 2022.](#)

²⁶⁷ [IH&SMEFD Circular No. 02 of 2022.](#)

²⁶⁸ [IH&SMEFD Circular Letter No. 08 of 2022.](#)

²⁶⁹ [IH&SMEFD Circular Letter No. 10 of 2022.](#)