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PAKISTAN'S BANKING SYSTEM REMAINS UNHURT BY RECENT FINANCIAL MARKET TURMOIL: DR AKHTAR

The banking system of Pakistan has escaped the major ravaging effects of recent financial market turmoil emerging from US and engulfing the developed European economies. This was stated by the Governor, State Bank of Pakistan, Dr Shamshad Akhtar while speaking at The Asian Banker Dialogue on "The Banks We Like and the Impact of the Global Financial Crisis on Pakistan's Banks" at a local hotel in Karachi today.

However, she observed: 'In my assessment, Pakistan's economy to date has been affected mainly by the indirect impact of global events which led to the rise in the global commodity prices.' Pakistan is perhaps the worst hit economy by the surge in global commodity prices as it has been a predominant factor in derailing the macroeconomic fundamentals, she remarked. Citing an example to explain this situation, she said that almost 80% of the external current account deficit in FY08 is equivalent to the import oil bill which shot up to over $11 billion in FY08 as compared to below $3 billion a few years back. Similarly, a large increase in FY08 fiscal deficit is on account of delay in pass through of the international price hike at retail level, she observed.

Dr Akhtar said the financial markets in Pakistan have not been hit by the subprime markets or the associated contagion directly as Pakistan's banking system from July 2007 to September 2008 did not face any liquidity problems. With the strong regulatory oversight, we have seen significant enhancement of capital and capital adequacy ratio supported by high provisioning requirements. The Governor said that in July 2008, the State Bank of Pakistan has launched far reaching financial sector reforms to lay foundations for further enhancing the robustness of the financial system to cope with the emerging challenges.

Elaborating further, she said that the capital adequacy ratio of the banking system is strong i.e. 12.1 percent (in June-08) – well above the internationally acceptable minimum requirement of 8 percent. Also, core capital constitutes about 80 percent of the total capital and Tier 1 to risk weighted assets ratio of the banking system is at 9.7 percent – well exceeding the 4 percent minimum international standard.

As of October 4, 2008, the balance sheet footing of our banking system is around Rs5.1 trillion while loans and deposits of the banking system are around Rs2.8 trillion and Rs3.8 trillion respectively, she added.

In its communications to the Pakistan Banks Association (PBA), the State Bank has advised the banks to act prudently in sharing the liquidity in the system and ensure that call rates reflect the fundamentals in the money market, she added. Dr Akhtar said that SBP on its part has injected regular liquidity in the financial system and since August 2008, conducted thirteen (13) OMO injections and injected temporary liquidity in excess of Rs 300 billion and banks have been facilitated effectively on discount window.

The Governor elaborated that in order to deal with this situation timely and effectively, the central bank in tandem lowered the Cash Reserve Requirement(CRR) and Statutory Liquidity Requirement (SLR) to infuse almost Rs 270 billion liquidity which is more than the withdrawal of deposits in the system.

Referring to the recent liquidity pressures in the banking system of Pakistan and surge in the interbank lending rates, she said that these pressures mainly pertain to a combination of seasonal factors (cash withdrawal for Eid festival and beginning of commodity finance season) and decline in foreign currency inflows. However, continuous rumour mongering by unscrupulous elements to destabilize the banking system intensified the liquidity pressure, she observed.

The central bank is further working at individual bank level to ensure that each institution is positioned to tackle the emerging challenges, Dr Akhtar reiterated. Moreover, she said the central bank is also exploring avenues to ease the bank specific liquidity constraints.

Dr Akhtar further said that banks have been advised to launch more aggressive efforts to mobilize deposits besides expanding their outreach in rural areas.

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