

SBP Governor's Press Statement

The Governor, State Bank of Pakistan, Dr Shamshad Akhtar has issued the following statement to the media at a news conference held this evening at SBP Karachi:

'State Bank of Pakistan (SBP) has been monitoring closely the recent developments regarding the overall and bank specific liquidity position. Keeping in view overall liquidity condition of the market, SBP has decided to take the following actions to ease the immediate liquidity situation and further incentivize banks to rely on medium / long term balance sheet funding w.e.f. from 18th October 2008.

- Cash Reserve Requirement (CRR) for all deposits up to one year maturity is being reduced by 200bps to 6.00 percent. As a result of this decrease of 200bps, an additional liquidity of about Rs60 billion will be released into the system. As communicated earlier there will be another 100bps reduction in CRR which will bring it down to 5.00 percent w.e.f. 15th November 2008 and will add another Rs 30 billion.
- It has been decided to fully exempt the time deposits of 1 year tenor and above from Statutory Liquidity Requirements (SLR). This will inject liquidity of about PKR 120 billion in the market.
- The reductions in CRR and exemption of Time Liabilities from SLR will release an aggregate liquidity of over Rs180 billion immediately into the system and contribute significantly in alleviating the prevalent liquidity strain in the market. In addition, another PKR 30 billion will be released on 15th November. Cumulatively SBP between now and 15th November, 2008 will have released liquidity of Rs 210 billion.

In order to ensure a prudent liquidity profile of the banking system, it has been decided to prescribe a maximum Advances to Deposit Ratio (ADR) of 70 percent for banks. However, in order to ensure the smooth transition of banks' balance sheet to this requirement, a timeline up to March 31, 2009 is being allowed to banks whose current ADR is above this ratio.

Pakistan's banking sector is quite resilient and fully capable of withstanding market shocks and adverse macro economic conditions. The lending and investments of the banks are subject to the stringent prudential regulations of SBP that prohibit the banks from clean lending above prescribed limit and investment in low quality assets.

State Bank of Pakistan is continuously monitoring the financial market in Pakistan and will take all necessary policy measures to ensure the stability of the payment and financial system in the country.

It is reiterated that these are temporary measures aimed at accommodating extraordinary liquidity requirements of the banking system and, therefore, should not be construed as a change in the monetary policy stance.

It may be recalled that SBP has also recently taken few other measures to improve liquidity position. These measures included the injection of fresh liquidity into the system through OMOs, reduction in Cash Reserve Requirement (CRR) by 1 percentage w.e.f. 11th October, allowing of HTM securities for discounting purposes, and an increase in the SLR eligibility limit of the PIBs from existing 5 percent to 10 percent of the TDL w.e.f 18th October, 2008.'
