February 20, 2009

SBP measures helped create Rs 360 billion liquidity for banking system: Raza

Syed Salim Raza, Governor State Bank of Pakistan, said today that the central bank has taken several measures to ease liquidity crunch in the banking system which have resulted in the creation of an additional Rs 360 billion indirect and direct liquidity.

Presiding over a meeting of the Private Sector Credit Advisory Council (PSCAC) held at State Bank, Mr Raza said that to ease tight liquidity conditions arising from extraordinary outflows from the banking system during October 2008, the State Bank took a series of measures including liquidity injection through OMOs, reduction in cash reserve requirement, exemption of time deposits (i.e. deposits of above one-year tenor) from statutory liquidity requirement, enhancement of list of eligible securities for SLR and provision of 100 percent refinance to banks against Export Finance Scheme, he added.

"These measures helped pump in direct and indirect liquidity of around Rs 360 billion in the banking system at present compared with just Rs 79 billion in September 2008," he said. Mr Raza said that sufficient liquidity is available in the banking system and urged upon the commercial banks to increase lending to productive sectors of the economy which will help the country to stage a quick economic recovery.

He noted with concern that private sector credit, after recording an average growth of 19 percent during FY06 to FY08, witnessed deceleration in the first seven months of FY09 (July 08 to January 09) mainly due to slowdown in the economic activity coupled with global recession. He said overall credit disbursement to the private sector expanded by Rs 158.4 billion during July 2008 to January 2009 and recorded a growth of 5.5 percent compared to Rs 260.3 billion or 10.5 percent last year. On annualized basis, however, growth is 11.2 percent, which is lower than 17 percent last year, he added. During FY09, private sector credit expanded substantially till October 2008 as private sector availed credit of Rs 125.6 billion during the period 1st July-1st November 2008 compared to Rs 60.5 billion in the same period last year. Thereafter, the credit- take-off started to decelerate and it increased by only Rs 32.8 billion during 1st November 2008 – 31st January 2009 as compared with Rs 199.8 billion in corresponding period last year.

SBP Governor told the participants that weak demand, high mark-up rates, rising non-performing loans and past liquidity constraints are some of the important factors behind decelearation in private sector credit disbursement.

He informed the meeting that credit disbursement to the agriculture sector through banking system in first half of FY09 remained at Rs 99.4 billion, up 10 percent over the disbursement of Rs 90.3 billion in the same period last year, against an annual target of Rs 250 billion.

However, he pointed out that credit disbursement to SMEs has declined to Rs 372.1 billion from Rs 433.2 billion as of December, 2007. Out of which, around 75 percent was for working capital, 17 percent for fixed investments, while 8 percent extended for other finances. The highest share of SME credit was obtained by Manufacturing sector at 40 percent followed by commerce & trade at 33 percent, real estate & renting at 8 percent and other private business at 5 percent as of December 2008. Similarly, consumer loans have also declined to Rs 326.1 billion as of December 2008 from Rs 353.8 billion as of June 2008. Within consumer finance, highest share is of personal loan at 40 percent followed by car finance at 28 percent, housing finance at 20 percent and credit cards at 12 percent as at end December 2008.

Similarly, Mr Raza said, financing and investment portfolio of Islamic banks reached Rs 185 billion in December 2008 compared with Rs 137.6 billion in December 2007. Market share of Islamic banks in overall banking has been increased to 5 percent at end December 2008 compared with 4 percent at end December 2007, he added.

Mr Sultan Chawla, President Federation of Pakistan Chambers of Commerce and Industry, urged upon the central bank to reduce mark-up rates as, according to him, the country's export-oriented industries have been rendered incompetitive to high interest rates and cost of production in addition to global economic slowdown.

Dr Ikhtiar Baig, Advisor to the Federal Government on Textiles, expressed industry's gratitude to the central bank for providing one-year moratorium on loan repayments under Long Term Financing Facility for Export Oriented Projects (LTF-EOP). He said that SBP's incentive will help the textile industry, which has been under pressure due to high cost of production.

Mr Aftab Manzoor, Chairman Pakistan Banks' Association gave a presentation on 'Corporate Lending – Issues and Trends'. He said that the banking sector has changed substantially over the last 9-15 months due to new challenges being faced by the industry and added that increase in lending rates is primarily due to high cost of funds and weak cash flows of the borrowers. He said that banks are adopting more objective lending criteria with focus on cash flows and emphasis on debt servicing ability of the borrower.

The meeting was attended, among others, by heads of commercial banks, officials of the federal and provincial agriculture ministries and departments, representatives of agriculture chambers and trade associations besides senior officials of the State Bank.

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