

June 7, 2010

Banks' lending to public sector declines by 10.7%, private sector lending shows growth: State Bank Report

Commercial banks' lending to public sector during the January-March quarter of 2009-10 fiscal year (FY10) contracted substantially by 10.7% while lending to the private sector increased by 0.2 percent on top of a 4.16% rise in the previous quarter. As a result, overall lending portfolio of the banking system declined by 2.4%, according to the State Bank of Pakistan's Quarterly Performance Review of the Banking System.

The Report, which was released today, pointed out that equity base of the banking system remained almost at last quarter level, however, due to increase in risk-weighted assets and decrease in eligible capital because of regulatory deductions, the risk-based Capital Adequacy Ratio (CAR) of the system lowered to 13.7% (14.1% in Dec-09), which is well above the minimum regulatory standard of 10%. "The stress test results showed that capital base of the system is strong enough to withstand unusual shocks in major risk factors," the Report reiterated.

During the January-March 2010 quarter earnings of the banking system registered improvements, the Report said and added that the system posted an aggregate pre-tax profit of Rs 29.1 billion (Rs26.2 billion in January-March 2009 quarter) with return on assets (ROA) of 1.8 percent (1.5 percent for CY-09). Moreover, contrary to the recent trend i.e. concentration of earning in relatively large-sized banks, this quarter also witnessed improvement in the earnings of individual banks as the number of loss making banks came down, the Report added.

On the funding side, the deposit base of the system with slight contraction remained stable; while 1.9% growth in investments could not sustain the asset base which declined by 1.4%, it said.

The Report said that Non-Performing Loans of the banking system increased to Rs 457 billion in January-March 2010 quarter from Rs 432 billion in December 2009. Accordingly, the loan infection ratios of the system increased;

Net NPLs to Loans ratio inched up to 4.2%, while provisioning coverage with slight contraction remained stable at 70.9%. "In the backdrop of challenging economic environment, power shortages and security situation, increased credit risk remains a major challenge for the banking system," it said.

The detailed Report is available at the following link:
http://www.sbp.org.pk/publications/q_reviews/qpr.htm
