

## **SBP Governor, Mr. Yaseen Anwar stresses the need for development of debt market to spur economic growth**

'Pakistan's economy and the financial sector are now at a stage where they can support and benefit from a vibrant and efficient debt market. The size of private debt, or Term Finance Certificates (TFCs) in Pakistan, remained around Rs 74 billion (0.5% of GDP), which is paltry as compared to the outstanding domestic government debt of Rs 4.64 trillion (31.4% of GDP). There is clearly underexploited capacity available to support economic growth.' This was stated by Mr. Yaseen Anwar, Governor, State Bank of Pakistan while delivering his keynote address on the 'Role of Financial Institutions and Capital Markets in Pakistan's Economy' at PAF Air War College in Karachi today.

He said that banks continue to be the main provider of debt in the system. 'In the absence of an active capital market, the commercial entities fail to procure long term debt financing, and rely on short and medium term loans from banks. Banks are trying to limit their credit risk and it has become more challenging to raise private debt for a business,' he said, adding that while some credit uptake may take place in the future, it is unlikely that banks will be keen to finance new long term projects anytime soon.

'We are facing several domestic issues that limit our ability to fully attain our potential. Our financial institutions and businesses must become more competitive and innovative, regulators like SBP and SECP must actively facilitate financial markets, and the Government should step up its function of providing infrastructure for growth, most crucially to meet the energy demand of productive sectors,' he emphasized.

'There is a need for coordinated efforts and support of the Government as well as of regulators (SBP & SECP) and banks for the development of a fixed income market that is necessary to diversify the financial sector, which in turn would enhance its role in supporting economic growth,' he observed.

The SBP Governor said: 'we have unambiguously designated our future path that includes three main priorities (a) to make our banking sector more resilient against exogenous shocks through our macro (systemic) and micro prudential framework, (b) actively encourage technological solutions for financial access and an efficient payment system, and (c) address the development needs of the financial markets and broaden the array of product and services as well as outreach.'

Mr. Anwar said that we would like to see our banks operating at world class standards and synergistically reinforcing the real economy. 'We are actively working at a pace to achieve this goal, and despite the current economic challenges, we are confident that we will succeed,' he said, adding that total assets of our banks amount to Rs7.7 trillion as of end-June 2011. The deposits stand at Rs6.0 trillion, while advances and investments of the sector are Rs3.8 trillion and Rs2.6 trillion respectively, he added.

He said that in spite of the economic slowdown, the pretax profit of the banking sector for the year 2010 was Rs105 billion and for the first six month of 2011, it was Rs77 billion. 'The banks stand at a healthy Capital Adequacy Ratio (CAR) of over 14 percent and have shown a steady increase in capital even in absolute terms, and equity of the banks is now Rs722 billion (June 2011),' he said and added: 'while the picture appears quite stable, the key challenge comes from economic slowdown. We have witnessed the impact of an economic slowdown through rising credit risk in the banks.'

However, as banking regulator, the big challenge arises from a two-pronged dilemma, he said and added: 'we want our banks to be sound, profitable and efficient users of their funds, yet we also want them to increase financial service penetration into unbanked segments of the economy,' the SBP Governor added.

He said that SBP is pursuing the second generation reforms for the financial services industry and has placed high priority on developing and implementing an effective strategy for financial inclusion in the country.

Mr. Anwar said that there is a huge surge among the banks to upgrade their technology and on-line banking services. The Automated Teller Machine (ATM) network has been expanding and in June 2011 there were approximately 5200 ATMs operating throughout the country, he said, adding that the concept of branchless banking has opened a new avenue for efficient channeling of funds. 'Progress in creating automated or on-line branches of banks has been significant so far and it is expected that almost all the bank branches will be on-line or automated,' he said, adding that utility bills payment and remittances would be handled through ATMs, kiosks or personal computers reducing both time and cost. The country's payment system infrastructure has been strengthened to provide convenience in transfer of payments to the customers, he added.

He said that since 2008, branchless banking has expanded steadily with increased participation of stronger as well as new players. At present, the agent network under the umbrella of branchless banking exceeds 20,000 that facilitate around 53 million transactions amounting to Rs196 billion (Sep-11), he added.

SBP Governor said that enabling regulatory environment has been provided for lending to Small & Medium Enterprises (SMEs), agricultural and microfinance; thus banks and financial institutions are encouraged and enabled to expand their scope of lending and customer outreach. Licensing and prudential norms for micro finance institutions have been designed with particular emphasis on facilitating growth of these institutions and expanding their outreach to the poor and vulnerable segments of the population, he added.

He said that the advances to SME sector declined from Rs.383 billion in Dec 2008 to Rs.292.5 billion in June 2011. The loan infection ratio of SME sector has also risen and is around 16.8 percent. 'Clearly we need to come up with sound solutions for revival of this sector. In March 2010, SBP came up with the Credit Guarantee Scheme for small and rural enterprises with the assistance of GOP and donor agencies that aims to motivate the banks to lend to borrowers, who otherwise would not have access to credit under normal circumstances. Several other initiatives are also underway,' he added.

Mr. Anwar said that the customer base of Microfinance Banks (MFBs) has crossed 700,000 whereas that of Microfinance Institutions (MFIs) had exceeded 1,300,000 in June 2011. 'At present 8 MFBs are operating in Pakistan, with total assets of Rs21.4 billion. Moreover, SBP is engaged in collaborative efforts with civil society institutions, especially involving large NGOs and RSPs in providing complementary services, such as social intermediation and capacity building,' he added. The regulatory regime adopted by SBP for the microfinance sector is that of a facilitator, guide and problem solver, he said, adding: 'we do not prescribe for MFBs the same onerous regulations that prevail for other financial institutions. 'We have a Consultative Group drawn from the representatives of stakeholders, who guide us in the development of our regulations and prudential norms,' he added.

He said that a large number of Pakistanis have remained withdrawn from commercial banking because of their strong belief against Riba-based banking. 'These individuals and firms now have the opportunity to invest in trade and businesses by availing of loans from Islamic banks and thus expand economic activity and employment,' he said, adding that the total Islamic banking assets stand at Rs.560 billion (June 2011), which is 7.3% of total assets of the banking sector.

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