ERD/M&PRD/PR/01/2016-18 March 3, 2017

Growth in advances to private sectors exceeds historical trend, says the SBP's Fourth Quarterly Report for CY16

State Bank of Pakistan has released its Quarterly Performance Review (QPR) of the Banking Sector for the quarter ended 31st December, 2016 (Q4CY16) today. In terms of the QPR, the key highlight of the quarter is the impressive growth in advances to private sector; highest 4th quarter growth in the last 10 years. The solvency profile of the banking sector remains robust as Capital Adequacy Ratio (CAR) of 16.17 percent is well above the minimum required level of 10.65 percent. Deposit growth has remained on steady path while 4th quarter's profit has improved over last years' though entire year's profit slightly narrowed owing to low interest rate environment.

The report highlights that the asset base of the banking sector has expanded by 4.6 percent in Q4CY16. The key contribution has come from demand for credit from private sector; thanks to lag impact of monetary easing, better economic conditions, and improved liquidity. Positively, a bounce back in the advances flow has been observed in the textile sector; the largest borrower of the banking sector. Besides, sugar, energy, agribusiness, and cement are some other sectors which have availed major financing from the banking sector in Q4CY16. Banks' investments, however, have fallen by 1.5 percent during Q4CY16 mainly on account of decline in investments in government securities.

Deposits – the key funding source of the banking sector - have observed growth of 6.4 percent in Q4CY16 (13.6 percent growth in the Calendar Year 2016). The addition in the overall deposits has been contributed by non-remunerative current deposits followed by fixed deposits and saving deposits. The report highlights that the high deposit growth in the 4th quarter as well in the entire year is a welcome sign considering deceleration in deposit growth observed in the last couple of years.

The asset quality of the banking sector has improved with decline in non-performing loans (NPLs) and corresponding ratios. Particularly, NPLs to loans ratio receded to 10.1 percent, the lowest level in eight years. Importantly, besides pick up in advances, recoveries in NPLs have played a pivotal role in bringing the ratio down. The coverage ratio (provisions to NPLs), has jumped up to 85.0 percent in Q4CY16 (82.7 percent in Q3CY16).

The dip in interest margins and reduced quantum of investment has narrowed the Year-to-Date profitability of the banking sector. As a result, return on assets (RoA) has declined to 2.1 percent as compared to 2.5 percent in Q4CY15. However, strong solvency remains intact as CAR of 16.17 percent as of December 31, 2016 is well above the minimum required level of 10.65 percent.

The Quarterly Performance Review can be accessed at URL:
http://www.sbp.org.pk/publications/q_reviews/qpr.htm

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