



## External Relations Department

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### **Pakistan's Economy rebounded strongly in Fiscal Year 2021 despite COVID related challenges: SBP releases its Annual Performance Review for Financial Year 2020-21**

The Board of Directors of the State Bank of Pakistan on October 26, 2021 approved the Annual Performance Review on the working of the Bank and its subsidiaries and the financial statements for the year ended June 30, 2021.

FY21 remained a particularly challenging year as the global economy adjusted to the economic and financial challenges posed by the COVID pandemic, including multiple waves of virus outbreak and ensuing containment measures. Amid such testing times, however; Pakistan's economy rebounded strongly compared to the previous fiscal year as well as in comparison with the targets set for FY21 at the beginning of the fiscal year. SBP's supportive monetary policy stance including quantitative measures to inject liquidity in a timely manner, supplemented by fiscal policy measures, provided a targeted, dynamic and well-coordinated policy response to COVID. These measures helped address the imminent liquidity and solvency concerns of businesses and households that had been emerging since the virus outbreak in March 2020 and supported the better than anticipated economic performance during the FY21.

The economic growth rebounded to 3.94 percent during the year, well above the target set for the FY21 of 2.1 percent and COVID induced contraction of 0.47 percent in FY20. The inflation also moderated to 8.9 percent in FY21 – well within the target range of 7-9 percent announced by SBP. Similarly other key macro-economic balances including current account, fiscal balance and the country's foreign reserves improved during the FY21.

SBP's quantitative measures were well targeted, well diversified across beneficiaries and temporary in nature; and in aggregate provided liquidity support of around 5.0 percent of GDP. To ease off the challenging business environment, SBP swiftly introduced concessional refinance schemes to prevent layoffs (Rozgar Scheme); facilitate healthcare institutions to upscale their facilities (Refinance Scheme to Combat COVID); and encourage firms to undertake long-term investments (under the Temporary Economic Refinance Facility). Export related procedural requirements were relaxed to counter the limited mobility amidst unfolding national lockdowns and scope for concessionary Export Finance Scheme (EFS) was expanded. In addition, SBP allowed bank's loan restructuring and loan deferment for firms including SMEs and households.

Furthermore, the anchoring of inflation expectations, despite some upward pressures from supply management issues and surge in international commodity prices, allowed the Monetary Policy Committee (MPC) to keep the policy rate unchanged throughout the year. The adoption of forward guidance on Monetary Policy by SBP since January 2021 played a major role in reducing short-term policy uncertainty for stakeholders.

Pakistan's external indicators also improved significantly in FY21 as SBP's foreign exchange grew more than 40 percent and the country's current account deficit plummeted to a 10-year low – mainly because of record high worker's remittances and export receipts. While market determined exchange rate improved export competitiveness, the financial incentives announced by SBP and the government for remittance processors under the Pakistan Remittance Initiative (PRI) encouraged the



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use of formal banking channels for remitting funds by emigrants, which paved the way for increasing inward remittance to USD 29.4 billion during the year.

With regards to Payments Infrastructure of the country, SBP undertook major initiatives aimed at financial inclusion, digital on-boarding of customers, enabling remote banking, providing digital modes of investments to customers through banking channels and improving payment systems efficiency. First, SBP in collaboration with Government and Commercial Banks launched Rohan Digital Account (RDA), allowing non-resident Pakistanis to open and operate bank accounts remotely with banks in Pakistan, invest in Naya Pakistan Certificates (NPCs), stock market, mutual funds, real estate and to purchase cars for their family members. The initiative was well received by Pakistani diaspora as by end June 2021, USD 1.56 billion have been received via 181,556 RDAs. This influx of foreign exchange has positively supported the country's balance of payment position. SBP's second major undertaking in the payments sphere, is the launch of first use case of Raast-a state-of-the-art, interoperable and secure payment platform that enables consumers, merchants and government entities to exchange funds in a seamless, instant and cost-effective manner. Both the developments in the payment systems domain will have a lasting impact on Pakistan's banking landscape as well as external account.

Financial inclusion remained top strategic priority at SBP, in line with the vision of National Financial Inclusion Strategy. During FY21, SBP's special focus remained on rural, underserved and unbanked areas, while issuing licenses for opening of new branches of commercial and microfinance banks. With regards to credit disbursement, SBP had a renewed focus on underserved economic segments, especially housing and construction finance, agriculture finance, and finance for micro, small and medium enterprises. Moreover, the third five-year strategic plan for the Islamic banking industry was issued by SBP in April 2021 to set a strategic direction and strengthen the existing growth momentum of industry.

With respect to its regulated entities, SBP during FY21 implemented Risk Based Supervision Framework- a forward-looking framework that would allow the SBP to pursue a coherent risk-based approach through proactive identification of risks, and take timely mitigation measures to ensure financial stability in the country.

To achieve its broad strategic goals and strengthen the organizational efficiency, SBP took major initiatives during FY21 aimed at workforce rationalization, attaining gender diversity, automation of process workflows, strengthening cyber security and risk management framework and improving transparency through enhanced communication with external stakeholders.

The Annual Performance Review (APR), including financial statements of the Bank and its subsidiaries and the auditor's report thereon for FY21, has been released to the public and transmitted to the Federal Government pursuant to Section 40(2) of the State Bank of Pakistan Act, 1956. The APR can be accessed at SBP website at <https://www.sbp.org.pk/reports/annual/arFY21/Vol-1/annual-index-eng.htm>.

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