



External Relations Department

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Banking sector showed robust performance and steady resilience during H1CY22, says SBP's Mid-Year Performance Review of the Banking Sector

SBP has issued today the Mid-Year Performance Review (MYPR) of the Banking Sector for the year 2022. The review covers the performance and soundness of the banking sector for the period January to June 2022 (H1CY22). It also covers the performance of financial markets and Microfinance banks (MFBs) as well as the results of Systemic Risk Survey (SRS), which represents independent respondents' views about key risks to financial stability.

The Review reveals that sustained economic activity during H1CY22 supported the expansion of banking sector balance sheet by 16 percent during H1CY22. Robust increase in the asset base was mainly driven by flow of private sector advances and increase in investments particularly the Government securities. Besides sizable mobilization of deposits, banks' reliance on borrowings increased significantly to finance the expanded balance sheet.

The pace of private sector advances growth during H1CY22 was the highest in comparable periods of previous three years. Improved manufacturing activity, as reflected in double digit growth in Large Scale Manufacturing (LSM) index during H1CY22, higher input prices and SBP's refinance schemes augmented the overall flow of advances. Individuals and sugar sector availed major chunk of financing followed by textile sector. Besides noteworthy growth performance, banks' asset quality indicators further improved. Gross Non-Performing Loans (NPLs) ratio moved down to 7.5 percent by end June-2022 from 7.9 percent at end December-2021. However, recent catastrophic flooding in many parts of the country may impact the repayment capacity of agri-borrowers of banks' and Microfinance borrowers.

The Review highlights that baseline profitability indicators moderated — despite strong growth in incomes — mainly due to the impact of sharp increase in tax charges. Capital Adequacy Ratio (CAR) of the banking sector slightly edged down to 16.1 percent due to faster growth in asset base and advances. Nonetheless, the ratio remains well above the minimum regulatory requirement (i.e. 11.5 percent) and banking sector in general has adequate capital buffers and resilience to withstand the impact of severe stress of macroeconomic conditions and shocks to key risk factors.

The Review also covered the results of 10th wave of SRS (July-2022) based on perceptions of independent market participants. The respondents perceive that the key risks for the financial system are mostly exogenous in nature i.e. global and macroeconomic risks. Majority of the respondents, however, expressed confidence in the stability of the financial system.

Recent catastrophic flooding in many parts of the country may impact the repayment capacity of agri-borrowers of banks and microfinance borrowers, and that of other borrowers as a second round effect. As such, banks as well as MFBs need to make prudent assessment of the possible impact on lending portfolios and take necessary measures for maintaining the asset quality and resilience of financial strength of their institutions, the Review adds.

The complete Report can be accessed at the following link:

<https://www.sbp.org.pk/publications/HPR/H1CY22.pdf>
