Governor's Annual Report

2021-22

State Bank of Pakistan

The analysis presented in this report were prepared on data outturns for fiscal year 2022 (July 2021 - June 2022). It was finalized in October 2022, using data and developments as of then.

This Report has been prepared in accordance with section 39(1) of the *SBP Act 1956* (as amended up to January 2022), which states that the Governor shall submit annual report before the Majlis-e-Shoora (Parliament) regarding the achievement of the Bank's objectives, conduct of monetary policy, state of the economy and the financial system.

Objectives of the State Bank of Pakistan

Objectives

The objectives of the State Bank of Pakistan are set out in section 4(B) of the *SBP Act 1956* (as amended up to January 2022*)*, which states:

1. The primary objective of the Bank shall be to achieve and maintain domestic price stability.

2. Without prejudice to the Bank's primary objective, the Bank shall contribute to the stability of the financial system of Pakistan.

3. Subject to sub-sections (1) and (2), the Bank shall support the Government's general economic policies with a view to contributing to fostering the development and fuller utilization of Pakistan's productive resources.

Definition of Price Stability

Price stability means the maintenance of low and stable inflation guided by the government's medium-term inflation target.
(section 2 (kb) of the *SBP Act 1956* (as amended up to January 2022))

Board of Directors

Mr. Jameel Ahmad	Governor (Chairperson)
Mr. Hamed Yaqoob Sheikh	Secretary, Finance
Mr. Fawad Anwar	Member
Dr. Ali Cheema	Member
Mr. Zahid Ebrahim	Member
Mr. Syed Nadeem Hussain	Member
Mr. Mahfooz Ali Khan	Member
Mr. Tariq Mahmood Pasha	Member
Mr. Najaf Yawar Khan	Member
Dr. Syed Akbar Zaidi	Member

Monetary Policy Committee

Mr. Jameel Ahmad	Governor (Chairperson)
Mr. Fawad Anwar	Board Member
Mr. Syed Nadeem Hussain	Board Member
Mr. Tariq Mahmood Pasha	Board Member
Dr. Naved Hamid	External Member
Dr. S.M Turab Hussain	External Member
Dr. Hanid Mukhtar	External Member
Dr. Murtaza Syed	Deputy Governor, SBP
Dr. Inayat Hussain	Deputy Governor, SBP
Mr. Arshad Mehmood Bhatti	Executive Director, SBP

LETTER OF TRANSMITTAL

State Bank of Pakistan
Karachi.
December 21, 2022

Dear Mr. Chairman,

In terms of Section 39(1) of the State Bank of Pakistan Act, 1956, Governor's Annual Report on the achievement of the Bank's objectives, conduct of monetary policy, state of Pakistan's economy and the financial system for the year 2021-2022 is hereby enclosed for submission to the Majlis-e-Shoora (Parliament).

With warm regards,

Yours sincerely,

(Jameel Ahmad)
Governor

Muhammad Sadiq Sanjrani
Chairman
Senate of Pakistan
Islamabad

LETTER OF TRANSMITTAL

State Bank of Pakistan
Karachi.
December 21, 2022

Dear Mr. Speaker,

In terms of Section 39(1) of the State Bank of Pakistan Act, 1956, Governor's Annual Report on the achievement of the Bank's objectives, conduct of monetary policy, state of Pakistan's economy and the financial system for the year 2021-2022 is hereby enclosed for submission to the Majlis-e-Shoora (Parliament).

With warm regards,

Yours sincerely,

(Jameel Ahmad)
Governor

Raja Pervez Ashraf
Speaker
National Assembly of Pakistan
Islamabad

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Governor's Remarks

Fiscal year 2022 proved to be exceptionally volatile and challenging. Around the world, policymakers confronted a series of shocks stemming from multiple waves of Covid-19, lingering supply chain disruptions, spiraling commodity prices and the outbreak of Russia-Ukraine conflict. By the end of FY22, inflation had risen to multi-year highs in several advanced and developing economies, and most central banks missed their inflation targets by wide margins. In response, they were forced to abruptly tighten monetary policy; particularly in the US, which put severe stress on emerging market currencies.

In Pakistan, the decline in Covid cases during the first half of FY22 and the government's inoculation drive provided an enabling environment for the economy to continue its recovery since FY21. At the same time, in contrast to the contractionary FY22 budget, fiscal policy turned significantly expansionary, including through large energy subsidies later in the year. This represented a departure from the fiscal consolidation in FY20 and FY21.

As a result of this unplanned fiscal expansion, an accommodative monetary policy stance and the lagged impact of SBP's post-Covid policies, growth was stronger than expected, reaching close to 6 percent for the second consecutive year in FY22. Coupled with rapidly rising global commodity prices, this stronger than anticipated domestic demand resulted in pressures on inflation, the external position and the PKR as the year progressed.

The first half of the year was marked by an accelerating pace of domestic demand, elevated global commodity prices, and supply chain disruptions, all of which led to higher inflation and a wider current account deficit. The second half of the year saw additional shocks that compounded these pressures. Externally, the Russia-Ukraine war exacerbated the global commodity price hike and coincided with the government's decision to freeze fuel and power prices. Domestically, heightened political uncertainty and concerns about the future of the IMF program added pressures, leading to a sharp fall in the country's foreign exchange reserves and the depreciation of PKR.

These shocks contributed to more than expected spikes in inflation as the year proceeded. On average, headline inflation rose to 12.2 percent in FY22, 3.3 percentage points above the previous year. The outturn exceeded the government's annual inflation target of 8 percent for FY22 and the SBP's revised forecast of 9-11 percent. As a result, inflation also diverged from the government's medium-term inflation target of 5-7 percent. As mentioned above, the factors that led to this overshooting of inflation were both external as well as domestic. It should also be noted that Pakistan was not the only country where inflation was higher than official forecasts at the beginning of the year amid the challenging global environment.

As these shocks materialized and started to manifest in high-frequency indicators while demand was already ratcheting up, SBP moved to counter inflationary pressures and contain the current account deficit since September 2021. During the course of the year, monetary policy decisions were calibrated in response to the unfolding pandemic, data out-turns and the evolving outlook for inflation, financial stability, and growth. In the first quarter of FY22, the post-Covid accommodative stance was initially reversed through a 25 basis point increase in the policy rate, followed by two sharp spurts of rate hikes in the second and fourth quarter of the year as fiscal slippages became clearer amid repeated spikes in global commodity prices. Cumulatively, the policy rate was raised by 675 bps during FY22. At the same time, the SBP increased the frequency of monetary policy committee meetings from six to eight times a year, with a view to making the process of monetary policy formulation more responsive to the fast-changing situation. During the year, the SBP also adjusted macro-prudential settings by tightening prudential regulations for auto and consumer financing as well as Cash Reserve Requirements and twice expanded the list of import items attracting cash margin requirements.

These shocks, however, did not translate into significant risks for financial stability, as the domestic financial sector remained stable and resilient throughout the year. There was some stress on financial markets, leading to volatility and pressures on prices of financial assets. However, they functioned smoothly without any significant disruption. Given its adequate capital cushion as well as limited exposure to foreign exchange and equity markets, the banking sector remained largely insulated from market risks. From the perspective of credit risk, the asset quality of microfinance banks has been under stress since the onset of the pandemic. However, the asset quality of the commercial banking sector, which has by far the largest share in the domestic financial sector, improved over the period. The sector's capital adequacy ratio remained robust, well above domestic regulatory requirements as well as international standards.

In addition to standard measures such as supervision of banks and tightening of macroprudential regulations, the landscape for financial stability continued to improve following new measures. These included strengthening of safety nets through the introduction of regulations for lender of last resort facility, the doubling of the limit of protected deposits by Deposit Protection Corporation, and the adoption of a forward-looking Risk-Based Supervisory framework for the banking sector, under which surveillance and corrective action are being carried out on an ongoing basis.

Notwithstanding the macroeconomic challenges in FY22, the SBP took a host of measures to support the government's economic policies aimed at fostering the development and fuller utilization of Pakistan's productive resources. These included initiatives aimed at increasing remittances and new investments by overseas Pakistanis courtesy of the Roshan Digital Account scheme and other measures; digitizing of payments through Instant Person-to-Person Payments facilitated by Raast; and the promotion of housing finance and low-cost housing in the country. During the year, SBP also continued to take measures to improve financial inclusion and financial literacy. To this end, the Bank launched the Banking on Equality policy to improve women's financial inclusion, issued 'customers' digital onboarding framework' for convenient digital account opening, and introduced the Digital Bank framework for the setting up of digital banks in Pakistan. In addition, a number of initiatives were undertaken to support government's agriculture- and SME-related policies to enable access to credit for small farmers and businesses and facilitate exports through the continuation of remaining disbursements of Temporary Economic Refinance Facility (TERF). The Bank also continued to promote Islamic banking, accelerating the pace of implementation of its third five-year strategic plan for the industry. As a result, Islamic banking assets and deposits now stand at around one-fifth of the overall banking industry.

Over the next few years, these measures will help strengthen the foundations of the country's economic growth and development. In the near term, following the SBP's reversal of accommodative monetary policy and the contractionary FY23 budget, domestic economic activity is expected to moderate. Indeed, this moderation has already started to manifest. The LSM contracted year-on-year in the first two months of FY23; the current account deficit declined in July, August and September 2022 on a sequential basis; and power generation decreased for three consecutive months after the rationalization of power tariffs and fuel prices.

As the economy had been adjusting to this slowdown, catastrophic floods hit large swaths of land and people at the start of FY23, paring economic growth prospects. Indeed, the floods have added to the prevailing significant challenges to the country's macroeconomic stability. These challenges have arisen from the confluence of domestic economic policy uncertainty, volatile global commodity prices, and monetary tightening by advanced and emerging economies to counter rising inflation. These factors are weighing on domestic inflation and external stability in the form of pressures on the current account, the Rupee and FX reserves. Navigating these challenges will require prudent monetary and fiscal policies and materialization of planned external inflows. In order to avoid a recurrence of boom-busts and to increase the resilience of the economy, structural reforms to boost export competitiveness, productivity, domestic savings and investment are imperative.

In the baseline, headline inflation in FY23 is expected to rise to 21-23 percent in FY23. Food has been a major contributor to headline inflation, and this trend is expected to continue during FY23 owing to supply shocks stemming from flood-induced losses to agriculture. Core inflation is on a rising trend, suggesting second-round effects from supply shocks and rising inflation expectations. Subject to a monetary policy stance which prioritizes price stability, fiscal consolidation and measures to contain food prices, inflation is projected to decline toward the upper range of the 5-7 percent medium-term target by the end of FY24, supported by the lagged effects of tight and coordinated policies, the normalization of global commodity prices.

At slightly less than 3 percent of GDP, the current account deficit in FY23 is expected to moderate compared to the outgoing year, in line with the slowdown in the economy. In addition, the expected decline in global oil prices and a slowdown in the pace of rate hikes by other central banks could ease pressure on the external account and its financing. To maintain external stability, it is critical to ensure early realization of financing committed by multilateral and bilateral creditors which will strengthen foreign exchange flows and provide a strong anchor to stakeholders allaying prevailing negative perceptions. In addition, current administrative measures to contain imports are not sustainable and will need to be eased over time. In order to ensure that the overall import bill remains contained as these measures are eased, it will be critical that the envisaged fiscal consolidation in FY23 is delivered and that strong measures are taken to curtail energy imports.

This baseline outlook is subject to risks from global commodity prices, domestic supply shocks, the fiscal stance, and completion of the IMF program. The State Bank of Pakistan will remain vigilant of data outturns as well as the evolving local and global economic and financial environment. We stand ready to take whatever actions are necessary to meet our objectives.

1 The State of Pakistan's Economy and Financial System

Pakistan's economic growth in fiscal year 2022 rose further compared to FY21, as both key commodity producing sectors – large scale manufacturing and agriculture – witnessed a notable increase in output amid robust domestic demand. The country's financial system complemented this growth, with its asset size rising by nearly 20 percent compared to a growth of around 16 percent in FY21. On the policy front, the year was marked by a reversal in the monetary policy stance as fiscal policy turned unexpectedly expansionary, leading to overheating pressures. This monetary policy reversal was important to address the challenges of accelerating demand, fast-rising inflation and a widening current account deficit that also put some stress on financial markets, as witnessed by the rupee depreciation.

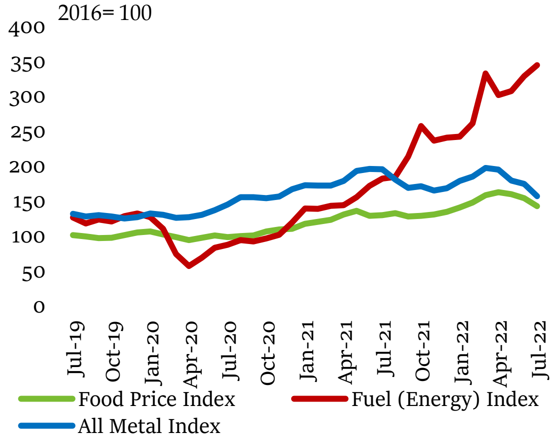
1.1 The State of Pakistan's Economy

Pakistan's economic growth was stronger-than-expected in FY22 as real GDP increased by 6 percent compared to 5.7 percent last year. The primary drivers of this growth were a broad-based expansion in large scale manufacturing (LSM) and improved agricultural output. However, economic imbalances emerged over the course of the year due to successive shocks to international commodity prices, an unplanned fiscal stimulus, delays in the resumption of the IMF program, and domestic political instability. These developments undermined the sustainability of growth, as they led to more than expected spikes in inflation, the widening of external and fiscal deficits, and a depreciating Rupee – exposing the country's structural weaknesses, particularly weak productivity, and low levels of investment amid excessive reliance on consumption-led GDP growth.

International Developments

International commodity prices remained elevated since the start of FY22 due to both supply-side bottlenecks and demand-side pressures from the global economic recovery.

World Commodity Price Index **Figure 1.1**



Source: International Monetary Fund

The latter emerged from a gradual return to normalcy following the Covid-19 shock, courtesy of the global vaccine roll-out and supportive economic policies of an unprecedented scale. In addition, cross-country differences in the timing and size of Covid-related supportive economic policies, along with differences in timing of the return to relative normalcy, led to production shortages and supply chain bottlenecks, which fueled global commodity prices, especially energy (**Figure 1.1**).

Two additional unexpected factors buoyed global commodities prices as the year progressed. First, in February 2022, the start of the Russia-Ukraine conflict and ensuing sanctions on Russia disrupted the supply of various commodities from the region and raised geopolitical risks for the world economy. Second, China's strict 'zero Covid' policy affected production and port activities across global manufacturing supply chains throughout the year, especially when the Omicron variant resulted in widespread lockdowns in Q3-FY22.

In the wake of these pressures, it became clearer as the year progressed that inflation across the world was proving to be much higher and more persistent than anticipated. As a result, a sharp reversal of post-Covid monetary accommodation was needed, contrary to earlier expectations that these price pressures were largely transient and could be accommodated. However, the pace of tightening had to be carefully calibrated due to lingering Covid uncertainty, in order to avoid significantly compromising economic growth. Therefore, global policymakers confronted a delicate balancing act between inflation and growth through the year.

Real Sector

In Pakistan, these global pressures manifested most noticeably towards the second half of FY22 **(Figure 1.2).** They coincided with domestic political instability and an extended delay in the resumption of the IMF program, even as growth turned out to be much stronger than expected in both FY21 and FY22, leading to overheating pressures.[1] In addition to increasing inoculation and easing of pandemic conditions, vibrant domestic demand was driven by the large unbudgeted fiscal expansion in FY22 as well as the lagged impact of the SBP's Covid-induced accommodative policies.

On the fiscal side, there were major slippages relative to the fiscal consolidation announced in the FY22 budget, marking a change over the two previous years of consolidation. The breadth and depth of the fiscal support expanded as the year progressed, boosting domestic demand **(Figure 1.3)**. This included a freeze on fuel and power prices in February 2022 before its eventual withdrawal in May 2022.

On the monetary side, an accommodative monetary policy at the start of the year also supported domestic demand, whereas continuation of the Export Financing Schemes (EFS) facilitated export-oriented industries. In addition, the continuation of the Long-Term Financing Facility (LTFF) and disbursements of approved financing under the Covid-induced Temporary Economic Refinance Facility (TERF) (that ended by March 2021)[2] supported capacity expansion. The promotion of low-cost housing also contributed towards domestic demand.

These supportive fiscal and monetary policies had a positive impact on industrial activity as growth in LSM was in double digits for the second year running in FY22. While this growth was broad-based, with 19 out of 22 sectors posting increases in FY22 compared to 15 sectors last year, it was mainly led by the wearing apparel, food, and automobile sectors. In the food category, sugar production grew

Economic Policy Uncertainty (EPU) Index **Figure 1.2**

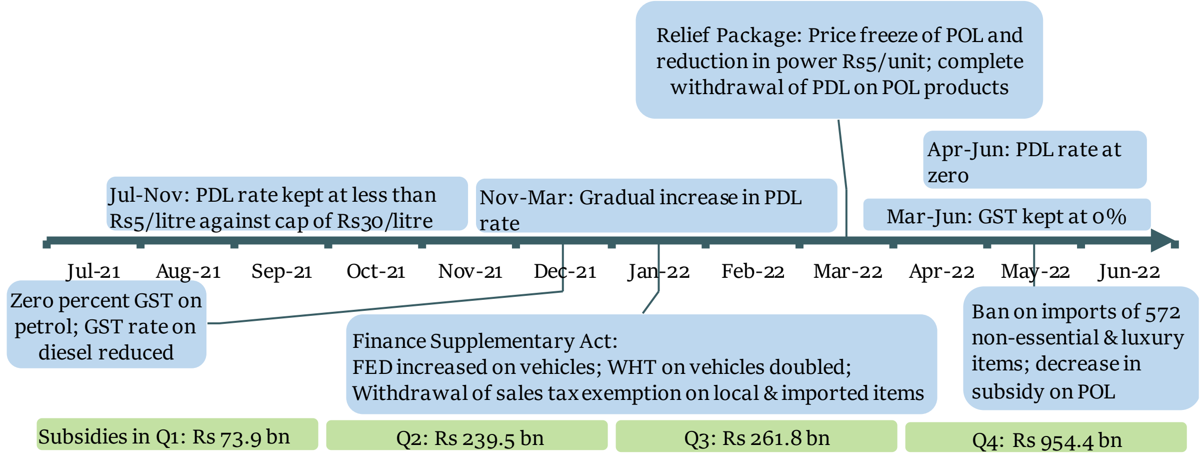
* A GDP-weighted average of national EPU indices for 20 countries .

Source: State Bank of Pakistan, Easy Data and FRED

[1] At the start of the year, growth was provisionally estimated at 3.94 percent in FY21 and projected at 4-5 percent in FY22. By May 2022, however, FY21 growth was revised up to 5.74 percent and FY22 growth was provisionally estimated at 5.97 percent, suggesting much larger demand-side pressures on inflation and the current account than previously anticipated.

[2] To support economic growth in the backdrop of challenges faced by the industry during the pandemic, the SBP had introduced TERF in March 2020 as a concessionary refinance scheme for setting up new industrial units. The scheme matured in March 2021. However, disbursement of loans approved till March 2021 continued in FY22.

Timeline of Key Fiscal Events **Figure 1.3**

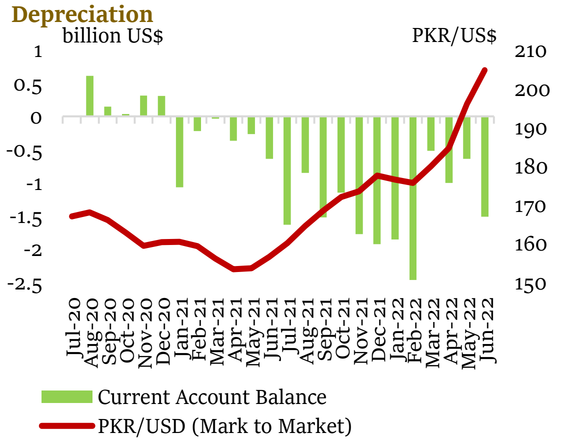


Source: Ministry of Finance and Federal Board of Revenue

due to record output of sugarcane crop. The automobile sector's output was driven by the accommodative monetary environment during the first quarter as well as the pick-up in economic activity, workers' remittances, and improved farm incomes, amid the launch of new models and variants.

The agriculture sector grew strongly by 4.4 percent from 3.5 percent last year as record production of rice, sugarcane and maize alongside increase in cotton output more than offset the decline in wheat production. Wheat production dropped due to a fall in both cultivated area and yields. The crop's sowing area decreased due to delayed announcement of a lower-than-expected increase in the minimum support price and late harvesting of sugarcane. While weather conditions favoured Kharif crops, the Rabi crops (sown in Oct-Dec and harvested in Apr-May) were beset by lower availability of key inputs, particularly water and fertilizer, which caused a decline in wheat yield. Fertilizer usage in FY22 remained lower than last year due to the surge in global fertilizer prices and domestic gas shortage in the winter season, and its impact was more pronounced in the Rabi season.

Current Account Balance and Rupee Depreciation **Figure 1.4**



Source: Easy Data, State Bank of Pakistan

External sector

Strong domestic demand coupled with the unabated international commodity price shock led to a widening Current Account Deficit (CAD) during the year. This explains at least half of the PKR deprecation of 23.1 percent in FY22, while the rest - especially in the second half of Fy22 - largely came from general USD appreciation **(Figure 1.4)**. There was decent growth of about 6.2 percent in workers' remittances, led by substantial contributions from advanced economies (especially the US and the UK), amid continuation of domestic policy incentives for remittance-processors. Export receipts also rose significantly due to a favorable policy mix as well as global demand. However, with import growth outpacing the growth in workers' remittances and a broad-based increase in exports, the FY22 CAD witnessed a nearly six-fold increase over the previous year to 4.6 percent of GDP in FY22.

The pace of export growth almost doubled year-on-year to about 27 percent in FY22, with both major traditional and non-traditional items contributing to higher receipts. Although textile exports were mainly driven by rising cotton prices that helped fetch higher unit prices, a significant increase in the quantity of high value-added items, such as home textile and apparel, also contributed. These were facilitated by a market-determined exchange rate; favorable global demand dynamics, particularly in the US and EU-27; and conducive policies of the government and the SBP that helped the industry in realizing higher capacity utilization and capacity expansion. The rise in the non-textile segment mainly stemmed from higher exports of rice, maize, refined copper and ethyl alcohol.

Imports grew 33 percent in FY22 compared to 24 percent in the previous year. The share of energy in total imports rose to 26 percent in FY22 from 18 percent the year before, reflecting both higher domestic demand and soaring global energy prices. Both energy and non-energy imports started slowing in Q3 following the SBP's sharp policy rate hikes in November and December 2021 and the moderating effect of the market-based exchange rate. However, the outbreak of the Russia-Ukraine conflict lent a new impetus to global commodity prices that translated into higher energy imports, compounded by the freeze on domestic fuel prices between February 2022 and end May 2022. As a result, energy imports in the last quarter of FY22 were substantially higher year-on-year both in terms of value and volume.

Non-energy imports contributed nearly half of the increase in FY22 imports reflecting a broad-based increase in global non-energy commodity prices and strong domestic demand, although procurement of Covid-19 vaccines also significantly contributed to import growth. For many items, such as palm oil, steel, fertilizer, and textile inputs, the impact of higher unit prices more than offset the decline in import quantities. However, imports of several other items, such as machinery and automobile, mainly reflected higher demand facilitated by the SBP's concessionary finance schemes TERF and LTFF, as well as the overall conducive policy environment in the first half of FY22.
The payments gap stemming from the swelling CAD was partially offset by higher net financial inflows of around US$ 11 billion. Major sources of financing included US$ 1 billion net inflow from sovereign bonds; bilateral deposits from Saudi Arabia and China; additional SDR allocation of US$ 2.8 billion from the IMF for Covid management; and release of $1.1 billion tranche from the IMF after the completion of the 6th review of Extended Fund Facility (in February 2022).

However, in the wake of the commodity price shock; substantial debt repayments in Q3; negligible increase in net FDI flows; portfolio investment outflows; and the settlement of payment under the arbitration award for a mining project, payment pressures became prominent. This was especially clear in the second half when the delay in the resumption of the IMF program and political instability led to significantly lower than planned external inflows. Consequently, the SBP's liquid FX reserves declined by US$ 7.5 billion during FY22 to USD 9.8 billion while the PKR depreciated by 23.1 percent during the year.

Fiscal Developments

Contrary to the fiscal consolidation planned in the budget, the primary deficit more than doubled to 3.1 percent of GDP; whereas, the fiscal deficit increased to 7.9 percent of GDP from 6.1 percent in FY21. This deterioration was driven to a large extent by the increase in subsidies that rose by 1.5 percentage points to 2.3 percent of GDP. High financing needs led to an increase in public debt, with both external and domestic debt contributing equally.

On the expenditure side, the government's interest expenses saw a modest increase in FY22 but remained around previous year's level in terms of GDP. However, non-interest current spending increased substantially, mainly due to higher subsidies and social protection grants under the government's relief package. The former was most pronounced in the fourth quarter, which accounted for 62 percent of total FY22 subsidies, following the government's decision to freeze fuel and power prices at the end of February 2022. The more than budgeted payment under the Circular Debt Management

Plan also contributed to the unplanned increase in subsidies. Grants rose due to federal government spending on Covid-19 vaccination. With unbudgeted expansion in non-interest current expenditure, federal development spending was cut in FY22. However, it was more than offset by growth in provincial development spending, leading to a 26 percent growth in combined federal and provincial development spending.

On the revenue side, the commodity price shock manifested itself in two contrasting ways. On the one hand, the government's decision to provide fiscal relief on fuel prices led to a decline in both domestic sales tax collection and Petroleum Development Levy on POL products. On the other hand, the rise in global commodity prices along with PKR depreciation contributed to a substantial increase in the collection of import-related taxes that more than offset the 15 percent decline in domestic sales tax collection. Total tax collection by the Federal Board of Revenue rose 29 percent during FY22 compared to 19 percent in the previous year, which provided a cushion against the drop in non-tax revenues (NTR). NTRs fell by more than one-fifth due to lower collection under PDL and change in the transfer mechanism of SBP's profits under the amended SBP Act.[3]

External debt grew mainly due to an increase in bilateral debt and sovereign bond issuance, along with debt from multilateral sources. Nevertheless, repayment capacity improved due to higher exports and debt rescheduling availed under the 14-month debt relief provided by the Debt Service Suspension Initiative (DSSI). However, external debt repayment pressures increased following the expiry of DSSI in December 2021. Within domestic sources, the government did not borrow from SBP in accordance with the amended SBP Act, and mainly relied on the commercial banking system. In particular, the share of floating rate long term instruments in total domestic debt rose during the period.

Inflation and Credit Developments

Average National CPI (NCPI) inflation reached 12.2 percent in FY22 from 8.9 percent the previous year. Soaring prices of international commodities, strong domestic demand and currency depreciation impacted inflation in FY22. In terms of categories, the food group was the chief source of inflation, responsible for almost half of overall inflation while the energy group was the major factor behind the increase in inflation relative to FY21 in addition to some uptick in non-food-non-energy (NFNE) inflation (**Figure 1.5 a & b)**.

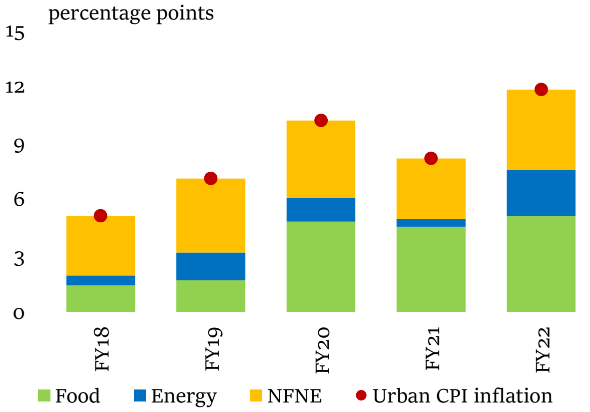
Despite the fiscal relief on fuel prices for most of the year, energy inflation continued to stoke NCPI inflation. Reflecting the impact of global commodity price increases and the large depreciation in PKR, major imported categories such as edible oil, tea, liquefied hydrocarbons, and fuel contributed around one-fourth in NCPI inflation during the year **(Figure 1.6)**.

Driven by both demand and cost pressures, NFNE inflation also rose considerably in FY22, contributing about a third to urban as well as rural inflation. The increase in NFNE inflation was broad-based across goods and services, although the impact on goods was more pronounced. NFNE inflation remained higher throughout FY22 compared to the year before, culminating in double-digit inflation in the fourth quarter of FY22.

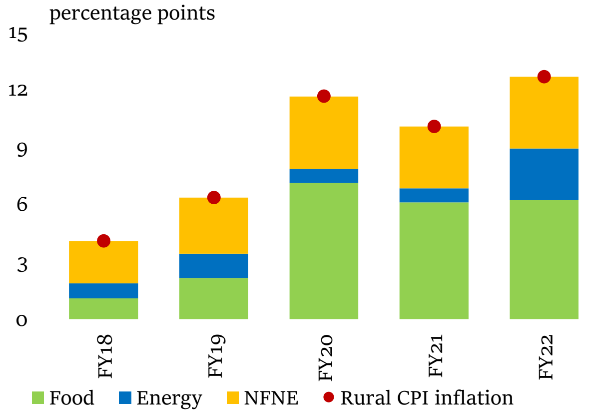
With surging commodity prices, the private sector's cost of production soared amid strong domestic and external demand, leading to higher demand for loans during the year. Loans to the private sector businesses grew by about 21 percent in FY22 compared to 11 percent in the year before. Nearly 68 percent of the increase in private sector credit was

[3] Transfer of SBP profits to the government in FY22 decreased year-on-year due to change in the transfer mechanism. Prior to the amendment in the SBP Act, which became effective in Q3-FY22, SBP's profits were transferred to the government at the end of each quarter. However, following the amendment the SBP profits are to be transferred after the finalization of annual financial statements at the end of each fiscal year. This implies that full year profits of the SBP for a given fiscal year will be transferred to the government in the next fiscal year.

YoY Inflation Contribution (Urban) **Figure 1.5a**



YoY Inflation Contribution (Rural) **Figure 1.5b**



Note: The red dots represent percent and stacked bars are in percentage points

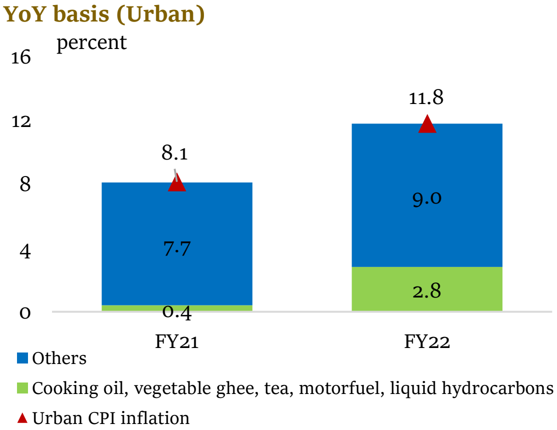
Source : Pakistan Bureau of Statistics

contributed by working capital loans, with financing needs of export-oriented businesses also elevated due to higher export volumes. The rest of the growth was led by fixed investments loans for capacity expansion mainly funded under the SBP's concessionary financing schemes - the LTFF and TERF.

While consumer loans increased by 27 percent in FY22, they were mostly driven by house building loans on the back of joint efforts of all stakeholders, including the SBP, the government and banks, to promote housing and construction finance in the country. The outstanding stock of housing portfolio almost doubled during FY22. Other types of consumer loans, such as auto and personal loans, tapered as the year progressed due to the increase in the cost of borrowing. In addition, macro-prudential measures to moderate demand growth, particularly for automobiles, also led to a reduction in flow of auto and personal loans through the year **(Figure 1.7)**.

As a result of the large increase in government borrowing from the commercial banking system and substantial growth in credit offtake, expansion in net domestic assets of the banking system more than doubled during FY22. However, since net foreign assets of the banking system contracted sharply due to the widening CAD and the resultant fall in SBP's reserves, money supply growth slowed to 13.6 percent during FY22 from 16.2 percent the previous year. Increased budgetary borrowing needs of the government and greater appetite for private sector credit made money market conditions challenging, with overnight rates

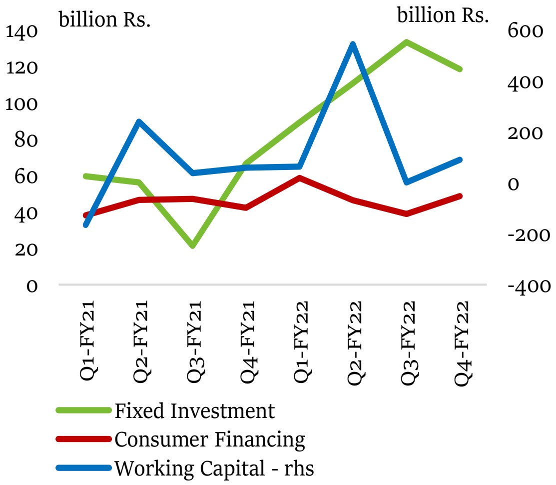
Inflation Contribution on YoY basis (Urban) **Figure 1.6**



Note: The red triangles represent percent and stacked bars are in percentage points

Source: Pakistan Bureau of Statistics

Quarterly Credit Flows **Figure 1.7**



Source: State Bank of Pakistan

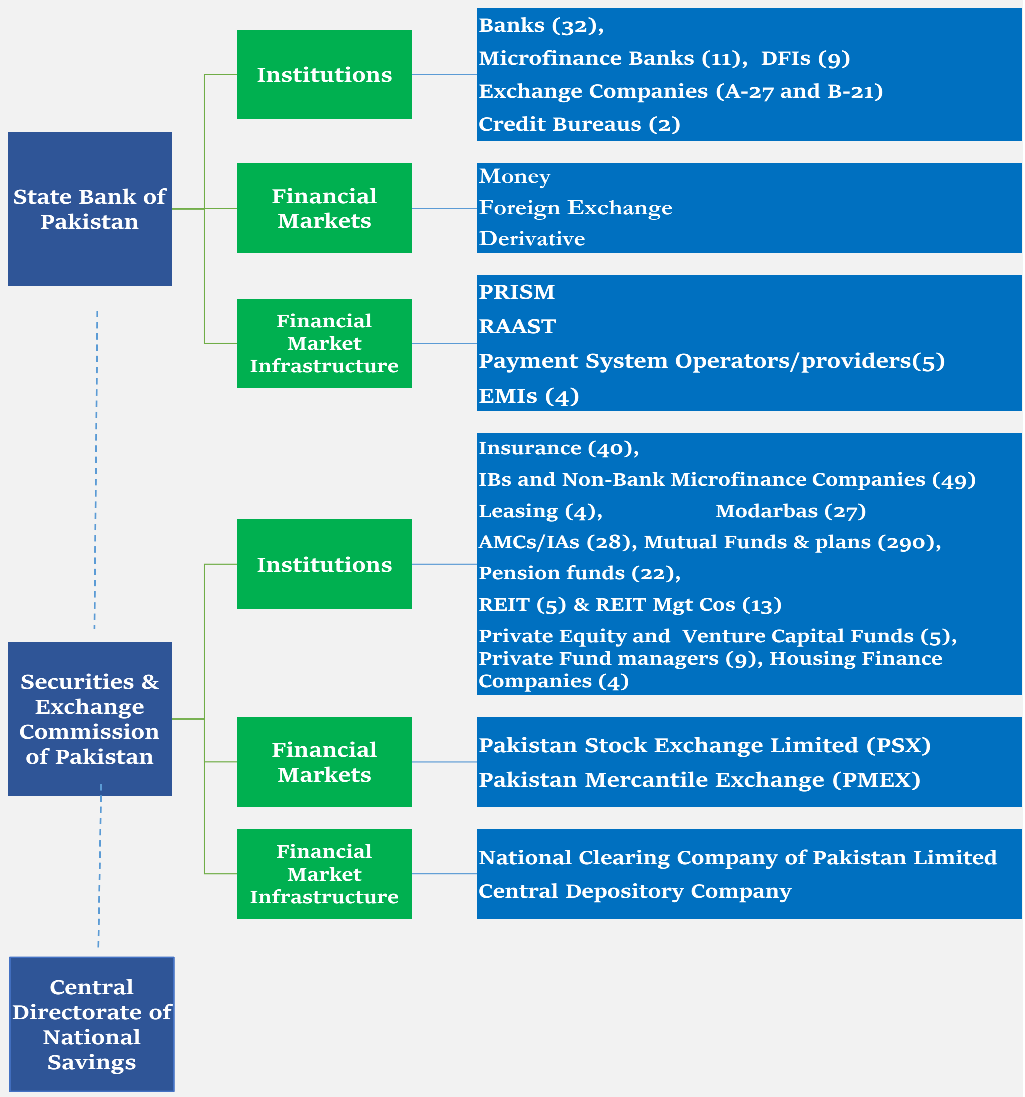
and secondary market yields both deviating notably from the policy rate during the year, especially in the second half of FY22.

1.2 The State of the Financial System

In Pakistan, financial sector supervision is entrusted to SBP and Securities and Exchange Commission of Pakistan (SECP). The financial sector of Pakistan comprises; banks, Development Finance Institutions (DFIs), Microfinance Banks (MFBs), Exchange Companies, Payment Service Operators / Payment System Providers and Electronic Money Institutions (EMIs) which are SBP regulated entities, while Non-Bank Financial Institutions (NBFIs) and Insurance companies are SECP regulated entities. In addition, Central Directorate of National Savings (CDNS) mobilizes savings from general public to meet the financing needs of the government (**Figure 1.8**).

Among financial institutions, SBP regulated entities represent more than 80 percent of the assets of financial sector. As such, the financial performance and standing of these entities is crucial for the financial system and overall economy of the country. Particularly, the banking sector holds key significance in the

Structure of Financial System of Pakistan **Figure: 1.8**



Source: SECP and SBP

financial sector, which due to its size drives the growth in assets of financial sector. During FY22, the asset base of the banking sector expanded by 23.7 percent largely driven by growth in investments and advances. Deposits and borrowings financed 49.2 percent and 43.1 percent increase in assets, respectively (**Table 1.1 & 1.2**).

Increase in investments of DFIs largely drove up their assets by 50.8 percent to PKR 807.0 billion in FY22. Borrowings from financial institutions financed most of the growth in assets. Due to a decline in Net Interest Income and an increase in provisioning expense, profitability (before tax) declined by PKR 3.4 billion to PKR 13.8 billion[4] in FY22 on yearly basis.

Aggressive lending by MFBs led to a 17.6 percent year-on-year increase in assets to PKR 604.2 billion in FY22. Advances increased from PKR 252.5 billion to PKR 310.2 billion while investments increased from PKR 98.6 billion to PKR 132.8 billion in FY22. Due to sustained provisioning expenses on rising NPLs, the sector on aggregate basis posted losses in recent years. During FY22, the sector's losses increased to PKR 11.5 billion (PKR 4.4 billion in FY21) and the overall capital adequacy ratio (CAR) edged down to 14.9 percent.

In FY22, non-bank financial institutions (NBFIs) continued their growth trajectory with a year-on-year increase of 18.1 percent to PKR 2,171 billion. While the asset management (AM) segment continued to dominate the NBFI sector, its market share in NBFI sector declined slightly from 85.8 percent in FY21 to 85.2 percent in FY22. Mutual funds continued to provide impetus to the growth momentum followed by real estate investment trusts (REITs) as a number of REIT schemes have been launched recently.[5] In addition, growth in Investment Finance Companies (IFCs) and Non-Bank Microfinance Companies (NBMFCs), which are involved in the financing business and represent 14.8 percent share in assets of NBFI, supported the overall growth of the sector. The assets base of the lending segment increased by 23.6 percent to PKR 322.1 billion in FY22.

Assets Composition of the Financial Sector **Table 1.1**

	Dec-19	Dec-20	Jun-21	Dec-21	Jun-22
billion Rupees					
MFBs	380	494	514	582	604
DFIs	377	439	535	539	807
NBFIs	1,339	1,700	1,839	2,023	2,171
Insurance*	1,727	2,017	2,134	2,252	2,359
CDNS	3,998	4,248	3,942	3,884	3,630
Banks	21,991	25,124	28,177	30,058	34,861
Total	**29,812**	**34,021**	**37,140**	**39,339**	**44,433**
YoY Asset Growth (Percent)					
MFBs	15.9	30.0	28.3	17.8	17.6
DFIs	58.1	16.5	29.1	22.6	50.8
NBFIs	13.0	27.0	30.2	19.0	18.1
Insurance	17.3	16.8	16.7	11.7	10.6
CDNS	9.4	6.2	-7.4	-8.5	-7.9
Banks	11.7	14.2	18.9	19.6	23.7
Overall Financial Sector	12.2	14.1	16.0	15.6	19.6
Percentage Share in Total Assets					
MFBs	1.3	1.5	1.4	1.5	1.4
DFIs	1.3	1.3	1.4	1.4	1.8
NBFIs	4.5	5.0	5.0	5.1	4.9
Insurance	5.8	5.9	5.7	5.7	5.3
CDNS	13.4	12.5	10.6	9.9	8.2
Banks	73.8	73.8	75.9	76.4	78.5
Assets as a Percentage of GDP**					
MFBs	0.8	1.0	0.9	0.9	0.9
DFIs	0.8	0.9	1.0	0.9	1.2
NBFIs	2.9	3.3	3.3	3.3	3.2
Insurance	3.8	3.9	3.8	3.7	3.5
CDNS	8.8	8.2	7.1	6.3	5.4
Banks	48.2	48.6	50.5	49.0	52.1
Overall Assets	**65.3**	**65.8**	**66.6**	**64.1**	66.4

Note: *Insurance data up to March-2022;
**GDP at market prices (2015-16=100)
Source: SBP, SECP, CDNS & PBS

The insurance sector has increased its asset base by 10.6 percent (over first 3 quarters of FY22) to PKR 2,359.3 billion in Mar-22. There are 40 active insurance companies with around 30 in the non-life sector. However, given its size, the life insurance sector continues to dominate the insurance industry with more than 80 percent market share in terms of assets.

[4] Profitability of the DFIs represent profit for last two quarters of CY21 and first two quarters of CY22
[5] During FY22, four news schemes have offered their units to investors, raising the tally of schemes to five.

Key variables of Balance Sheet of Banks, DFIs and MFBs **Table 1.2**

billion Rupees

	Dec-18	Dec-19	Dec-20	Jun-21	Dec-21	Jun-22
Banks						
Total Assets	19,682	21,991	25,124	28,177	30,058	34,861
Investments (net)	7,914	8,939	11,935	14,162	14,554	17,829
Advances (net)	7,955	8,249	8,292	8,808	10,121	10,890
Deposits	14,254	15,953	18,519	20,441	21,720	23,730
DFIs						
Total Assets	238	377	439	535	539	807
Investments - Net	122	240	287	368	338	584
Advances – Net	82	92	111	117	140	160
Deposits	12	12	27	23	34	31
MFBs						
Total Assets	328	380	494	514	582	604
Investments (net)	55	52	97	99	133	133
Advances (net)	185	207	231	253	278	310
Deposits	239	266	373	378	423	447

Source: State Bank of Pakistan

State of Financial Sector Development

As discussed, Pakistan's financial sector is dominated by commercial banks, which play a key role in the financial intermediation process and contribute the lion's share of the financial sector's asset base. While Pakistan's economy has faced various challenges and policy uncertainties, the financial sector supported the economic recovery during FY22 with the uninterrupted provision of credit and financial services. The consolidated asset base of the sector increased by 19.6 percent in FY22 compared to 16 percent growth in FY21. The financial depth in terms of financial sector assets to GDP ratio stood at 66.4 percent, almost at the comparable level of the previous year (**Table 1.1**).

In comparison to its peers, Pakistan's financial sector has substantial room for development across key indicators which is critical for both price and financial stability, as well as the utilization of Pakistan's productive resources.

Particularly, Pakistan lags behind other developing and emerging economies in terms of financial market development, financial access credit and insurance penetration, and development of capital markets. Private sector credit as percent of GDP is low as compared to peer countries. Similarly, mortgage loans as a share of GDP, i.e. long-term lending, are small (**Table 1.3**).

A cross-country comparison reveals that in terms of depth of financial institutions, Pakistan is behind other emerging market peers across Asia, Latin America, Europe and Africa (**Figure 1.9a**). Similarly, in the case of financial market depth, Pakistan's relative performance indicates that firms and individuals have very limited financing avenues available to cater to their savings and investment needs (**Figure 1.9b**).

From the central bank's perspective, these financial indicators pose a challenge in terms of monetary policy transmission, as well as in contributing to the government's goal of sustainable, equitable and inclusive economic growth. This outcome is partly the result of recurring macroeconomic instability, dispute resolution mechanisms, the frequent balance of payments crises and the government's dominant borrower role in the banking system.

To a large extent, the issue of low financial depth is also reflective of the elusive relationship between a majority of the population and the formal financial services industry. Slightly more than a fifth of the adult population in the country has a bank account which is lower than that in the EM peer

Financial sector in Pakistan: cross country comparison - Key Indicators **Table 1.3**

	Year	China	India	Bangladesh	Pakistan	Turkiye	Malaysia	Sri Lanka	Indonesia
Domestic credit to private sector (% of GDP)[b]	2020	183	55	39	15	71	134	-	38.7
Mortgage Loans (% of GDP)[c]	2019	-	7.9	0.9	0.6	4.9	-	-	4.5
Bank assets (% of GDP)[b]	2020	219	80	68	50	93	159	-	44
Central Government Debt (% of GDP)[a]	2020	-	55	39	88	36	62	101	42
Deposit (% of GDP)[a]	2021	153	66	43	31	62	102	65	41
Account ownership[b *]	2021	89	78	53	21	74	88	89	52
Private credit bureau coverage (% of adults)[b]	2019	-	63	-	6.7	0	89	49	40
Public credit registry coverage (% of adults)[b]	2019	100	0.0	5	12	80	65	0	31
Market capitalization of listed domestic companies (% of GDP)[b]	2020	83	97	24	15.6 [d]	33	130	20	47
Insurance penetration(Premium/GDP%)	2021	3.9	4.2	0.5	0.7	1.3	5.3	1.3	1.6

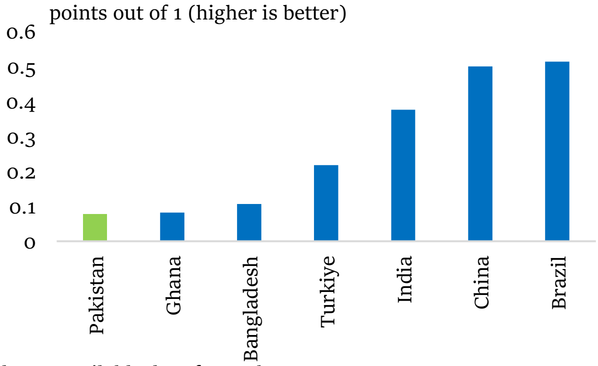
* Account ownership at a financial institution or with a mobile-money-service provider (% of population ages 15+)
Source: [a] IMF, [b] World Bank ,[c] Helgi Library and [d] SBP calculations [e] Swiss Re Institute Sigma No. 4/2022

countries (**Table 1.3**).[6] This lack of relationship with a financial institution means that many individuals and businesses simply do not approach banks for credit, deposits or other products, such as insurance coverage. An important related element is the low savings rate in Pakistan that limits the availability of funds for intermediation. And many of those that do, are faced with often adverse credit decisions, given that banks simply do not have access to a lot of relevant parameters and data to properly assess prospective borrowers. This information asymmetry compounds structural challenges in financial development. While credit bureaus are operational in Pakistan, their coverage is low compared to other countries.

Private sector credit is a crucial element for sustainable economic growth. However, the level of private sector credit in Pakistan is low as compared to peers. The leading factors[7] responsible for low credit include a) information asymmetries that impair financial institutions' ability to assess the credit worthiness of borrowers; b) lack of ability or will of small borrowers to meet the necessary documentation and information requirements for bank financing; c) issues in creditors' right regime, as it takes time and resources for banks to recover stuck-up advances through a

Financial Institution Depth **Figure 1.9a**

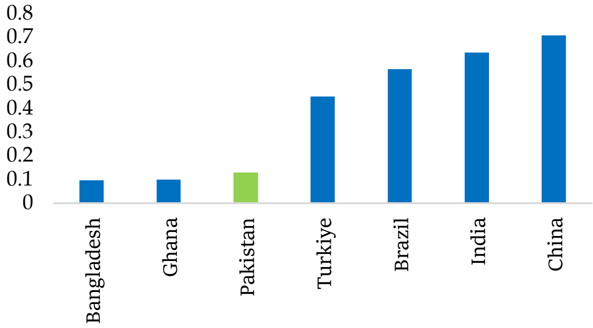
points out of 1 (higher is better)



latest available data for each country
Source: IMF Financial Development Index Database

Financial Market Depth **Figure 1.9b**

points out of 1 (higher is better)

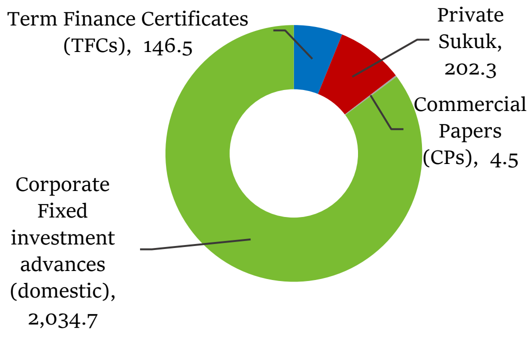


latest available data for each country
Source: IMF Financial Development Index Database

[6] This number is from World Bank's Global Findex Database, which is based on demand-side surveys. This may not reconcile with the actual numbers reported by the SBP and used elsewhere in this report.
[7] For a detail discussion see Chapter 7 on Understanding Low Private Credit Penetration in Pakistan Contextualizing Recent Policy Reforms in SBP Annual Report on The State of Pakistan's Economy for 2019-20

Private Debt Market and Banks' Fixed investment advances **Figure 1.10**

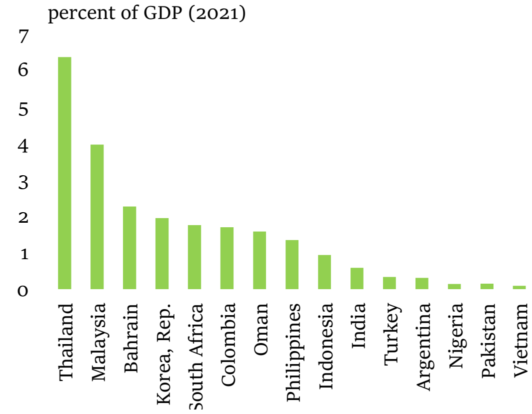
Outstanding PKR billion at end June-2021



Source: SECP and SBP

Corporate Bonds Issuance in Selected Emerging Markets **Figure 1.11**

percent of GDP (2021)



Source: Global Financial Development Database

legal process; d) faith based sensitivity of some entrepreneurs to avoid bank financing; and d) high concentration of banks' exposure on government due to increasing fiscal needs, leading to crowding out of private sector credit.

Additionally, the limited outreach and development of capital market constrains corporate sector's ability to raise funds through tradable bonds. This in turn puts all the pressure on banks for provision of credit to relatively good quality borrowers as compared to other segments such as SMEs and Agriculture. [8] Accordingly, a predominant part of banks' loan portfolio goes to large firms, while corporate debt issuances remain relatively small as compared to banks long term loans to large firms (**Figure 1.10**).[9] Moreover, long term loans, such as mortgage loans, also remain wanting in the country. Although, large firms' heavy reliance on bank financing is a typical trend in many emerging market economies (EMEs); many of the peer EMEs have a higher share of corporate bond issuances when compared to Pakistan. (**Figure 1.11)**

Likewise, the insurance sector of Pakistan suffers from low insurance penetration due to structural issues pertaining to low financial deepening as well as some sector specific issues e.g. low per capita income, low awareness among public of insurance benefits, religious concerns, relatively high premium rates (due to smaller size of market), consumer protection concerns, low product and service innovation, etc. Since the role of insurance and capital market participants remains limited in long-term financing, the gap is largely filled by banks.

Cognizant of these important challenges, Chapter 4 of this report presents details of steps taken by SBP in FY22 which build upon a plethora of measures taken in the past to expand the financial system sustainably For example, the central bank adopted the National Financial Inclusion Strategy (NFIS) developed in 2015 and its scope enhancement in FY19 to achieve inclusive economic growth with defined targets for the year 2023~~.~~

Furthermore, the SBP made a wide range of regulatory interventions to increase financial market depth, increase financial inclusion, implementation of Banking on Equality policy to improve financial access for women and address other bottlenecks in the working of the banking system in the country. The Chapter 4

[8] Various reasons contribute to limited ability of corporates to raise funds from capital market. For instance, low investors' base, low financial literacy and competition from low risk and high return alternatives such as National Saving Schemes. For details Capital Market Development Plan, 2020-2027, SECP and Financial Literacy Around the World: Insights from the Standard & Poor's Ratings Services Global Financial Literacy Survey 2014
[9] The total outstanding (listed) issues at PKR 353.3 billion (0.6 percent of GDP) at end FY21, remained a miniscule portion as compared to fixed investment advances (domestic corporates) of banks PKR 2,034.4 billion.

also details how, over the past couple of years, and especially since the Covid-19 outbreak, the SBP has steered the banking industry to utilize digitization to increase their penetration in the economy. From bank accounts that can be signed up digitally to integrating our overseas diaspora with Pakistan's banking sector, the SBP is pushing banks to cater to the historically underserved population segments via alternative (digital) channels. Other regulatory interventions include efforts to remove information asymmetries, especially for small and medium enterprises, so that banks and other financial firms can appropriate the creditworthiness of prospective borrowers with no or very little credit history and irregular cash flows.

Trust of general public in the financial system is the key for sustainable mobilization of savings. This trust requires protection of depositors against insolvencies of banks, safety of funds in their accounts and fair treatment by financial institutions. First, key aspect of trust is protection of depositors. For this purpose, Deposit Protection Corporation established in 2018 now guarantees the payment of up to PKR 500,000/- to its depositors in case of a bank failure. Secondly, for fair treatment of bank customers, SBP has prescribed guidelines and minimum standards to ensure fair practices on the part of banks and early resolution of customers' complaints. In order to address any residual grievances and adjudicate customers' claims in efficient manners, the avenue of Banking Ombudsman is in place. To ensure effectiveness of fair conduct system and practices, SBP's supervisory process duly reviews banks' compliance with SBP guidelines and instructions and takes corrective actions against any delinquent institution. Lastly, as discussed in chapter 3, in wake of the significance of cyber and information security risks and its implication for the bank customers, SBP has instituted a comprehensive regulator and supervisory frameworks for coping with these risks. Moreover, SBP in collaboration with the banking industry has launched awareness campaigns to help the public cope with the information security and fraud risks.[10]

Financial Intermediation by SBP's Regulated Institutions

Deposit mobilization

Banks, MFBs and DFIs (regulated institutions) operated through a network of around 17,000 branches and catering a large number of customers through alternate delivery channels. They offer various deposit account services through which they mobilize savings in the country.

The total number of depositors' accounts with banks and MFBs grew by 15.6 percent (YoY) to 141.7 million by end Dec-2021 with outstanding deposit amount of PKR 20.7 trillion.

Meeting credit needs of the economy

The advances of SBP's regulated institutions to different segments of the economy including businesses, households and public sector increased by around PKR 2,183 billion during FY22. Moreover, these institutions had invested PKR 17,178 billion in government papers, which significantly support the government's fiscal needs and development expenditures.[11] In the meantime, growing Government borrowing from the banking sector had increased its exposure to 54.6 percent of the banks' assets as of end June, 2022.

In line with their share in the financial sector, banks financed around 95 percent expansion in advances during FY22. Domestic private sector advances surged by 23 percent to PKR 1,575 billion during this period (PKR 721.5 billion increase in FY21). This increase in advances reflects enhanced credit needs in the form of working capital and long-term investments of

[10] https://www.pakistanbanks.org.pk/case-study/cyber-fraud/ and https://www.sbp.org.pk/press/2022/Pr-24-Sep-2022.pdf

[11] Banks holds 16.6 trillion of investment in this amount at end June-2022, which is consistent with their size in the financial sector.

Outstanding Credit to Housing and Construction sector and TERF & LTFF **Table 1.4**

billion Rupees

	Housing & Construction	LTFF & TERF*
Dec-19	149.7	181.7
Dec-20	192.1	263.1
Mar-21	204.0	312.2
Dec-21	367.0	530.3
Mar-22	405.0	604.4
May-22	415.0	643.8
June-22	450.8	666.4

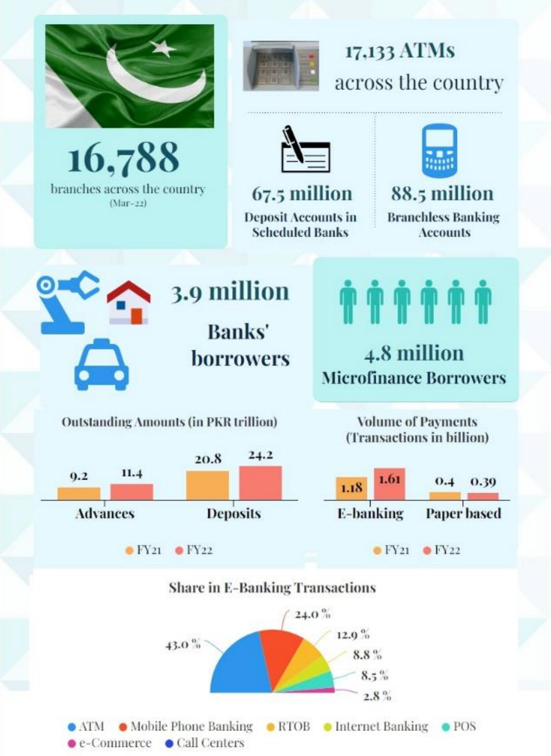
* TERF started from May-2020 onwards

Source: State Bank of Pakistan

businesses and households. The SBP's refinance schemes to promote long-term investment i.e. Temporary Economic Relief Facility (TERF), Long Term Financing Facility (LTFF) and Government of Pakistan's markup subsidy housing scheme "Mera Pakistan Mera Ghar" (MPMG) also facilitated the expansion of private sector credit to these avenues (**Table 1.4; Figure 1.12 & 1.13**). As a result of strong growth, the loan penetration (of banks, DFIs,

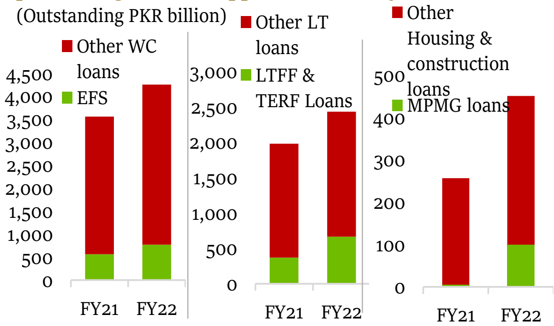
SBP's regulated financial institutions perform the major financial intermediation **Figure 1.12**

(Data as of June-2022 or latest available)



Source: State Bank of Pakistan

SBP refinance schemes and MPMG provide significant support to economy **Figure 1.13**



Note: WC=working capital loans, LT=Long Term loans, EFS=Export Finance Schemes, TERF=Temporary Economic Refinance Facility, MPMG=Mera Pakistan Mera Ghar

Source: State Bank of Pakistan

MFBs) reached 17.0 percent of GDP by end June-22 up from 16.4 percent in end June-21, while advances to deposit ratio increased to 46.9 percent by end June-2022 (44.0 percent in June-2021).

The number of banks and MFBs' borrowers rose by 4.6 percent to 8.8 million during FY22. With improving footprint of the MFBs, share of low-net worth micro borrowers have increased to around 54.8 percent of the total borrowers. However, in value terms corporate sector remains the major user of credit with almost 70 percent share in the banks' total advances, while share of SME and agriculture stood at around 4 percent each. The significant uptick in advances and clientele base bodes well for enhancing financial intermediation and sustainable economic growth in the economy.

It is worth mentioning that Islamic banking industry has made significant contribution to overall growth of the banking sector during the review period. Islamic banking assets reached around 19.5 percent of total assets as of end June-2022, while share of deposits reached 20.5 percent. On a YoY basis, assets and deposits of IBI were up by 41.4 percent and 27.0 percent, respectively by end June, 2022. Currently, 22 Islamic Banking Institutions (IBIs) with a branch network of 4,086 branches including 1,463 windows spread across 129 districts of the country are providing Shariah compliant banking services.[12]

[12] IBIs include 5 full-fledged Islamic banking and 17 Islamic banking windows of conventional banks.

Performance of Islamic Banking **Table 1.5**

	IBIs		Conventional Banks	
	FY21	FY22	FY21	FY22
	PKR Billion			
Total Assets	4,797	6,781	23,380	28,079
Investments (net)	1,363	2,672	12,800	15,158
Financing (net)	2,118	2,961	6,690	7,929
Deposits	3,822	4,856	16,619	18,875
	Percent Change			
Total Assets	32.0	41.4	16.5	20.1
Investments (net)	51.6	96.1	27.0	18.4
Financing (net)	24.8	39.8	5.1	18.5
Deposits	29.7	27.0	15.0	13.6
	Share in Total Assets (Percent)			
Investments (net)	28.4	39.4	54.7	54.0
Financing (net)	44.2	43.7	28.6	28.2
FDR/ADR (Percent)*	55.4	61.0	40.3	42.0

*FDR= Financing to Deposits and ADR=Advances to Deposits

Source: State Bank of Pakistan

Importantly, Islamic Banking Institutions (IBIs) has shown more accelerated growth and better performance in recent years as compared to conventional banking segment (**Table 1.5**), which reflects the acceptability of Islamic banking and its potential to promote financial inclusion.

Financial markets

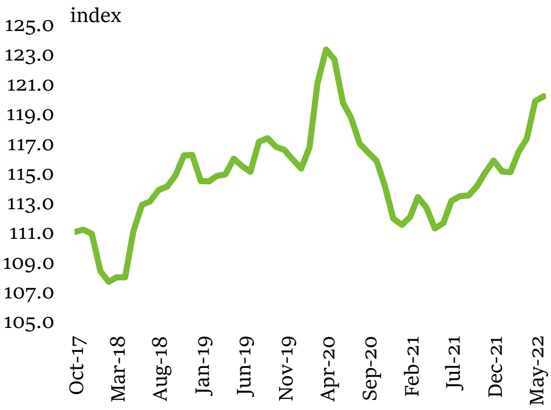
The financial markets faced increased stress particularly during the latter half of the FY22, due to strained global and domestic macro-financial conditions. Beginning of the year was characterized by a strong economic recovery both at domestic and global fronts, which was later marred by the global commodity super cycle and build-up of current account deficit and inflationary pressures at home. The reversal of monetary policy stance in advanced economies and start of conflict in Eastern Europe further added to the uncertainty and inflation in global commodity prices. Particularly the monetary tightening by US Fed led to strengthening of the US dollar against many currencies (**Figure 1.14**).

Likewise, PKR also weakened against USD, as domestic factors such as widening current account also exerted pressure on the parity. Accordingly, the domestic financial markets witnessed increased volatility and pressures on prices of financial assets as the year progressed (**Figure 1.15 and Table 1.6).**

In the meantime, the financial markets continued to function smoothly without any significant disruption. In the FX market, market-based exchange rate mechanism let the market forces determine the exchange rate.

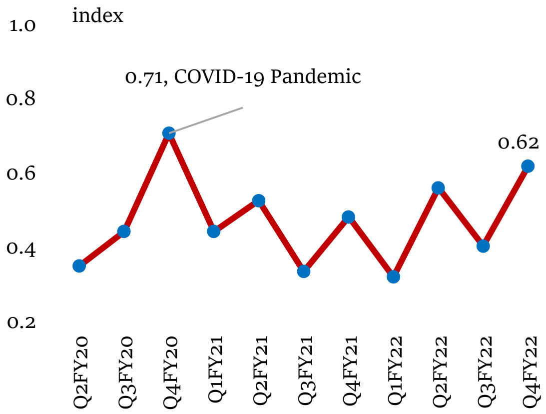
However, the SBP had to take a number of contingency measures to mitigate external account pressures, which emerged due to inherent structural imbalances in the economy. The SBP effectively maintained the overnight interest rates within the bounds of policy rate (interest rate corridor) and through its money market operations ensured that the interbank market remained adequately liquid.

Trend in USD Index (Jan 2006=100) **Figure 1.14**



Source: Board of Governors of the US Federal Reserves

Trend in Financial Markets Stress Index (FMSI) **Figure 1.15**



Source: SBP Staff Estimates

Movements in Key variables of Financial Markets **Table 1.6**

		FY20	FY21	FY22
PKR Vs. USD	Level (end of period)	168.05	157.54	204.85
	Depreciation (-)/appreciation (+) (%)	-4.8	6.7	-23.1
	Volatility*	0.36	0.22	0.37
Weighted Average Overnight Repo rate	Level (end of period)	7.21	7.49	13.80
	Change (bps)	-518	28	631
	Volatility*	0.03	0.05	0.04
KSE-100 Index	Level (end of period)	34,422	47,356	41,541
	YoY change (%)	1.5	37.6	-12.3
	Volatility*	1.54	0.96	0.94

*Volatility is measured using Exponential Weighted Moving Average (EWMA) volatility

Source: SBP, PSX and SBP staff estimates

Payment systems and Financial Market Infrastructure (FMIs)

FMI is a multilateral system among participating institutions that is used for clearing, settling, or recording of payments, securities, derivatives, or other financial transactions.

FMIs of Pakistan consist of (i) a Large Value Payment System (LVPS) i.e. Pakistan Real-Time Interbank Settlement Mechanism (PRISM), (ii) a Retail Value Payment System (RVPS) or Instant Payment System i.e. Raast, (iii) an inter-bank switch facilitating various banking services i.e. 1-Link, (iv) a clearing house of paper-based instruments i.e. National Institutional Facilitation Technologies (NIFT), (v) a corporate securities settlement company i.e. National Clearing Company of Pakistan Limited (NCCPL), and (vi) a corporate securities depository i.e. Central Depository Corporation (CDC).[13]

FMIs' systemic nature makes them centric to the clearance and settlement of transactions in financial institutions as well as in the flow of money and securities. Smooth functioning of payment systems is thus critical for the efficiency of the financial system with regards to uninterrupted provision of financial services, effective transmission of the monetary policy signals, and stability of the financial markets.

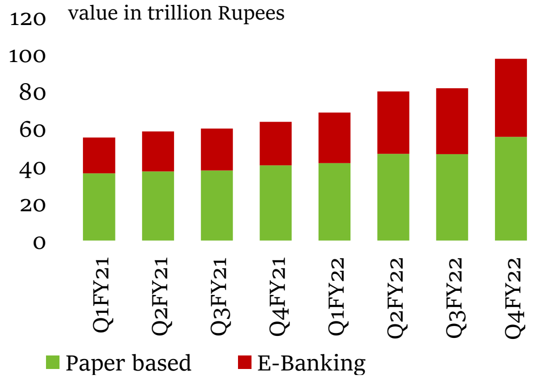
The SBP Act, 1956 mandates SBP to operate and oversee payment systems. Further, the Payment Systems and Electronic Funds Transfer (PSEFT) Act, 2007 empowers SBP to regulate, operate and facilitate the national payment systems of the country and ensure the sound and efficient functioning of the national payment and settlement systems.

The performance of Financial Market Infrastructures (FMIs) in terms of level of activity further improved and their resilience remained intact in FY22. FMIs maintained uninterrupted flow of services during the year which was marked by a couple of surges in COVID infections. Particularly, digital finance and electronic transactions, which have gained popularity over the last few years, maintained their growing momentum both in terms of value and volume **(Figure 1.16a & 1.16b)**.

The Digital Financial Services (DFS) in Pakistan has developed significantly as a result of SBP's continued efforts to promote digital payments as an alternative to cash, modifying regulations, minimize security risks and working closely with financial institution to further enhance the payment system. As a result, E-banking witnessed growth of 36.2 percent by volume and 59.4 percent by value by end of FY22 on year-on-year basis. In terms of value the growth in e-banking was driven by Real Time Online Branches, whereas in terms of volume mobile phone banking contributed the most **(Table 1.7).**

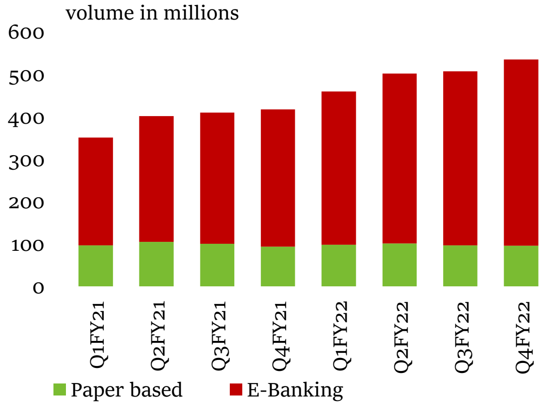
[13] NCCPL and CDC are regulated by Securities and Exchange Commission of Pakistan (SECP).

Electronic Banking share in Total Retail Transactions has Significantly Improved during FY22 **Figure 1.16a**



Source: State Bank of Pakistan

Volume of Electronic Banking Transactions Have Expanded **Figure 1.16b**



Source: State Bank of Pakistan

In this regard, SBP also took a number of measures to promote digital finance, including the introduction of person-to-person (P2P) free instant payment system through SBP's flagship initiative Raast for retail transactions, interim waiver of bank charges on online fund transfers during COVID-19, roll out of customers' digital onboarding framework and introduction of licensing and regulatory regime for digital banks. Moreover, to further improve digital payments infrastructure in the country SBP has been facilitating new Electronic Money Institutions (EMIs). SBP granted various levels of approvals to twelve (11) EMIs since 2019 of which four (04) EMIs have been allowed live commercial operations and are offering different payment and wallet services to their customers.

With the increasing use of DFS, it is important that users' trust in these mediums also increase. To this end, SBP took various initiatives to promote trust and security in DFS. Over the past few years, SBP had issued different regulations to standardize security requirements of various digital financial products/services such as for payment cards, internet banking and enterprise security. Recently, SBP issued common standard and regulatory requirements for Security of Mobile Apps. The requirements provide guidelines for banks to securely develop mobile apps and ensure customer security and enhance trust in digital financial services.

E-Banking Transactions Channel **Table 1.7**

	FY21		FY22	
	Volume (in million)	**Value** (in PKR billion)	**Volume** (in million)	**Value** (in PKR billion)
RTOB	186.6	67,308.4	207.2	105,308.8
ATM	598.7	8,075.6	692.3	9,627.5
POS	88.9	453.1	137.5	707.2
Internet Banking	93.4	5,661.3	141.7	10,249.9
Mobile Phone Banking	193.4	4,915.2	387.5	11,850.7
Call Centers/ IVR Banking	0.2	8.1	0.1	7.0
E-Commerce	21.9	60.6	45.5	106.0
Total	**1,183.1**	**86,482.3**	**1,611.8**	**137,857.1**

Note: RTOB: Real-Time Online Branches; ATM: Automated Teller Machine; POS: Point of Sale

Source: State Bank of Pakistan

2. Price Stability and Conduct of Monetary Policy

2.1 Inflation Projections and Outcomes

Average headline National CPI (NCPI) inflation reached 12.2 percent in FY22 from 8.9 percent last year, exceeding the government's FY22 target of 8 percent as well as SBP's own inflation projection range for the year. As a result, inflation diverged from the objective of price stability, embodied by the government's medium-term target of 5-7 percent. The primary objective of the SBP is price stability and without prejudice to the primary objective to contribute to financial stability and support of the general economic policies of the federal government (**Box 2.1**). As discussed in this Chapter, both external and domestic factors contributed to this overshooting of inflation from target in FY22.

Inflation in Pakistan **Table 2.1**

percent

	FY20	FY21	FY22
National CPI	10.7	8.9	12.2
Rural inflation	11.6	10.0	12.6
NFNE	8.7	7.6	9.0
Urban inflation	10.2	8.1	11.8
NFNE	7.5	6.0	8.1

Source: Pakistan Bureau of Statistics

In the year following the Covid-19 shock, NCPI inflation had eased to 8.9 percent in FY21 from 10.7 percent in FY20 (**Table 2.1**). Despite the post-pandemic revival in economic activities, inflationary pressures were contained because of several supporting factors, including a decline in global commodity prices, adequate supply of perishable food items, spare capacity in the economy, fiscal consolidation, and a favorable exchange rate environment. Moreover, a notable decline in the price of services such as transport fares, and tax on services, were responsible for a slowdown in Non-Food Non-Energy (NFNE) or core inflation in FY21. However, these factors reversed sharply through the course of FY22, with both supply-side and demand-side pressures on inflation accumulating.

Box 2.1: The Price Stability Objective

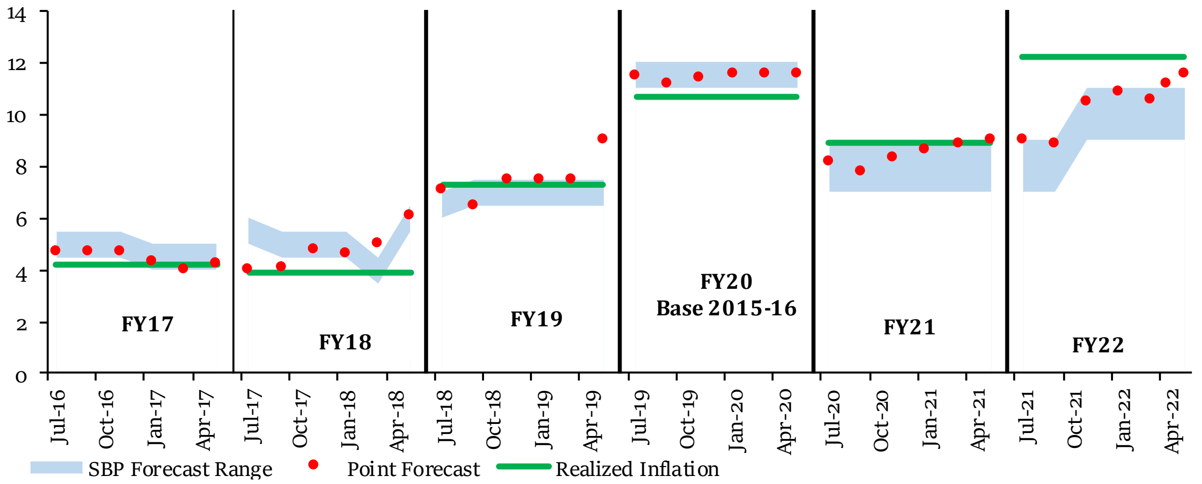
International experience has shown that price stability is a necessary condition for sustained growth and development. Countries where price stability is a primary objective tend to have lower inflation, as well as less volatility in both inflation and growth. Conversely, international experience has repeatedly shown that countries that prioritize growth at the expense of price and financial stability are not able to sustain growth and have repeated boom-bust cycles—rapid economic growth followed by a financial crisis. In that sense, price stability is a necessary condition for sustained growth and development.

The SBP's price stability objective is reflected in the government's medium-term inflation target of 5-7 percent.[14] A few points are important to note about the price stability objective and its pursuit:

- First, from a cyclical perspective, inflation dynamics in an economy are determined by both demand-side factors associated with the pace of domestic growth relative to its potential as well as supply-side shocks that affect costs regardless of demand.
- Second, supply-side factors, such as changes in the price of energy and food, can be driven by both domestic and international developments. These factors can often be difficult to predict.
- Third, in forecasting inflation, a number of assumptions have to be made and continually updated as more information comes in. In Pakistan, the coverage and timeliness of information needs improvement and there are often large revisions to 'annual' GDP growth estimates relative to provisional estimates. These, together with scarce availability of high frequency real sector data, complicate forecasting and real-time decision-making.

[14] Source: Finance Division, Medium Term Budget Strategy Paper.2020-2023.

SBP Inflation Forecast Evaluation FY17-FY22 **Figure 2.1.1**



Source: Pakistan Bureau of Statistics, State Bank of Pakistan

- Fourth, inflation forecasts also hinge on the outlook for international commodity prices and exchange rate developments. As a result, when there is significant volatility in these variables, inflation outcomes can often be different from forecasts. In general, the SBP's inflation forecasts at the beginning of the year have been remarkably close to actual out-turns, including in the aftermath of Covid **(Figure 2.1.1)**.

- Fifth, the inflation target is a medium-term one and does not apply at every single point of time. It means that temporary deviations from the medium-term inflation target may be tolerated depending on the assessment of the type of the shock, such as a supply-side concern, the extent to which inflation expectations remain anchored and the behavior of output relative to its potential level. SBP strives to ensure the overall tendency of inflation outcomes and expectations to converge towards the ultimate medium-term target of 5-7 percent. Toward this goal, monetary policy decisions are guided by the changing outlook for inflation, growth and its potential, financial stability, and the balance of risks affecting these outcomes.

- Sixth, adopting price stability as the main objective of the central bank, while shifting to a market determined exchange rate is akin to shifting the nominal anchor in the economy from the exchange rate to an inflation target around which economic players are expected to center their expectation and decisions. This requires the central bank to 'credibly' commit to deliver an inflation target. To establish this credibility and earn the trust of economic agents takes time.

At the beginning of FY22, the State Bank of Pakistan projected average annual NCPI inflation to fall within the range of 7-9 percent in FY22 **(Figure 2.1)**. This was predicated on several assumptions including: (i) the provisional real GDP growth estimate of 3.9 percent in FY21 (2005-06 base) and a projection of 4-5 percent growth for FY22; (ii) continued fiscal consolidation; and (iii) relatively benign international commodity prices as suggested by futures markets **(Figure 2.2 & Table 2.2)**.

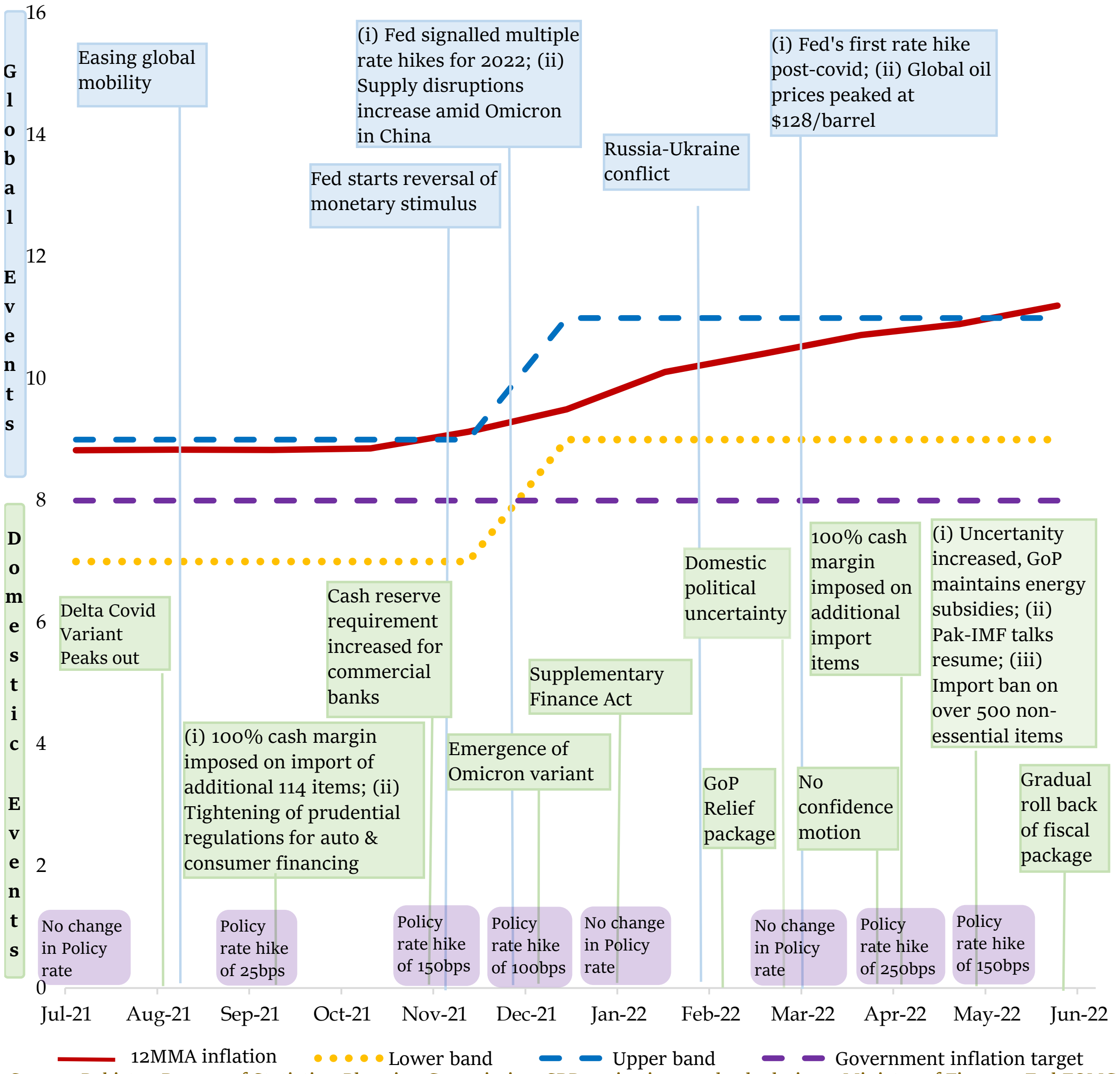
SBP Macroeconomic Projections and Actual Outcome- FY22 **Table 2.2**

	SBP Projections	Actual Outcome
Real GDP Growth (%)	4.0 - 5.0	6.0
CAD (% of GDP)	2.0 - 3.0	4.6
Fiscal Deficit (% of GDP)	6.5 -7.5	7.9
Average oil prices ($/bbl)	65	90
Memorandum Item:		
	2nd July 2021	**30th June 2022**
Mark to market Exchange Rate (Rs/US$)	157.9	204.8

Source: State Bank of Pakistan, Pakistan Bureau of Statistics, Ministry of Finance, Bloomberg

This inflation projection was subject to both upside and downside risks. The key upside risks included: (i) higher than expected increase in global commodity prices, along with upward adjustment in energy tariffs and the petroleum development levy (PDL); (ii) exchange rate depreciation that could exacerbate imported inflation; and (iii) fiscal slippages that could accentuate demand pressures. The primary downside risk was a

Inflation Projections and 12MMA Inflation - FY22 (percent) **Figure 2.1**

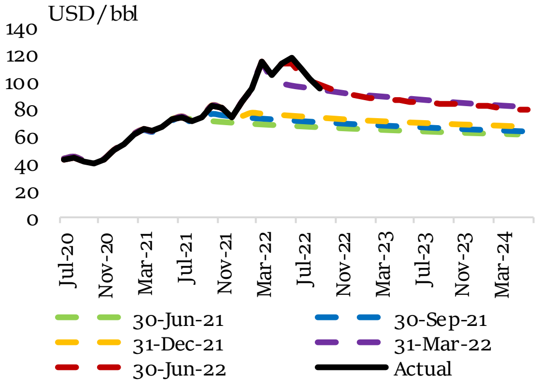


Source: Pakistan Bureau of Statistics, Planning Commission, SBP projections and calculations, Ministry of Finance, Fed FOMC Statements, Bloomberg and WHO

re-imposition of mobility restrictions amidst a resurgence in the spread of Covid-19, which could stall the ongoing domestic and global economic recovery. Looking ahead, inflation was expected to decline to its medium term target range of 5-7 percent in FY23.

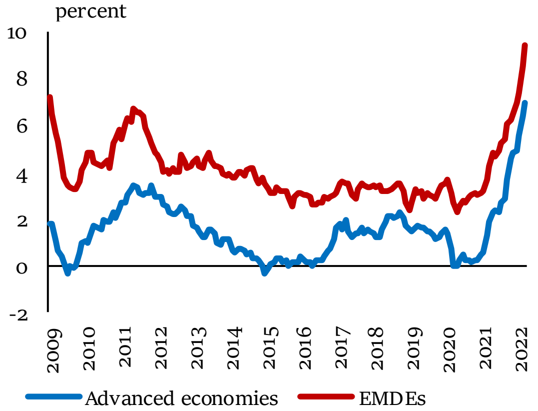
However, actual inflation outturns remained higher than projections during H1-FY22. This was largely because the upside risks identified above at the start of the year materialized together with a faster-than-expected recovery in domestic demand. First, lingering supply bottlenecks intensified the upswing in global commodity prices during the first half of FY22, which had repercussions for the outlook for both inflation and CAD. Second, the consistent expansion in economic activity, amid an accommodative monetary policy and the unexpected fiscal expansion, compounded the impact of the global price increase, leading to a large increase in CAD during FY22. These external account pressures translated into a 10.7 percent depreciation in PKR during H1-FY22, which spurred imported inflation. Third, the upward adjustment in administered prices and its second-round effects further intensified inflation. In view of these developments, and the expected withdrawal of general sales tax (GST) exemptions through the proposed

Oil Futures **Figure 2.2**



Note: The futures are adjusted by $1/bbl
Source: Bloomberg

Monthly CPI inflation, year-on-year **Figure 2.3**



Source: World Bank

Finance (Supplementary) Act 2022, the inflation projection for FY22 was revised upward to 9-11 percent in the December 2021 MPC meeting.

During the second half of FY22, some unexpected domestic and global geopolitical developments led to a further deterioration in the outlook for inflation and external stability. Notably, the fallout of the Russia-Ukraine conflict that erupted in February 2022 added further impetus to the uptrend in international commodity prices. Emerging concerns about rising inflationary pressures and their entrenchment prompted more than anticipated monetary policy tightening by major central banks, leading to depreciation pressures on the Rupee. The situation was aggravated by the emergence of a fresh Covid wave in China that caused additional supply chain pressures.

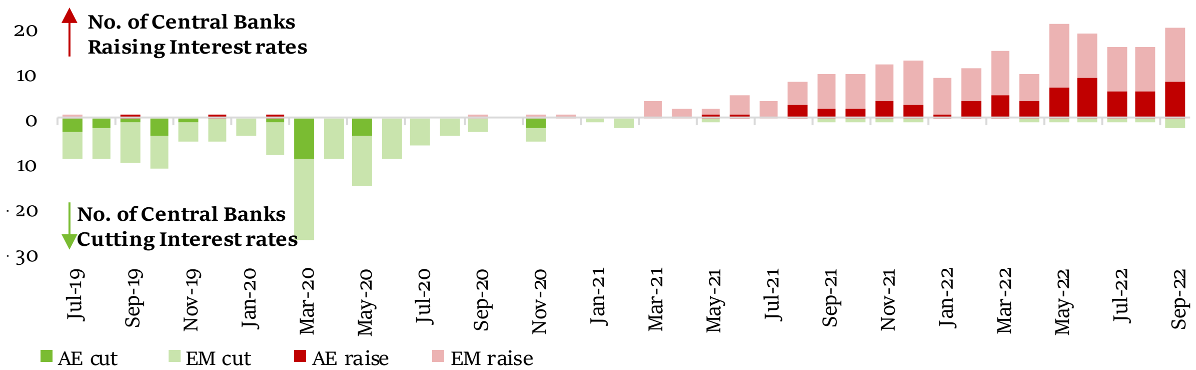
On the domestic front, the expansionary fiscal policy stance, along with the relief package for energy prices, political instability, and uncertainties around the IMF program, posed additional challenges to the macroeconomic outlook during H2-FY22 as monetary policy was adjusted to fast changing ground realities. Remarkably, economic policy uncertainty was higher in this period than during the initial phase of the Covid-19 shock. These factors manifested in a widening of the country's risk premium, reflected by the sizable rise in Pakistan's sovereign bond yields and Credit Default Swap (CDS) rates, and contributed to the sharp depreciation of the PKR. By April, the average inflation forecast for FY22 was revised upwards once again to slightly above 11 percent.

These developments in Pakistan were ahead of but in line with what was to become a global experience. The post-pandemic recovery in economic activity and ease in lockdowns progressively pushed up global commodity prices since January 2021. The unexpectedly fast rising momentum of economic activity along with demand-supply mismatches resulted in a commodity super cycle, which was made worse by supply chain disruptions and shipping delays. The eruption of the Russia-Ukraine conflict in February 2022 further intensified inflationary pressures. To address rising price pressures that unexpectedly pushed inflation to multi-decade highs **(Figure 2.3)**, a number of emerging and developed economies increased policy rates during FY22 (**Figure 2.4**). However, the objective of price stability remained challenging across countries including Pakistan, as inflation in the vast majority of emerging and advanced economies breached targets during 2021 and the initial months of 2022 (**Figure 2.5**).

2.2 Monetary Policy Stance in FY22

The conduct of monetary policy throughout the year was guided by the SBP's primary mandate of achieving price stability while facilitating financial stability and growth, and keeping in view the Covid-19 uncertainty. Remaining data-driven, monetary policy adapted to the rapidly changing macroeconomic outlook and

Number of Central Banks Cutting or Raising Interest Rates **Figure 2.4**



Advanced Economies (AE) sample consists of Australia, Canada, Czech Republic, Iceland, New Zealand, Norway, South Korea, Sweden, Switzerland, UK, USA and Eurozone.
Emerging Markets (EM) sample consists of Brazil, Chile, Colombia, Egypt, Ghana, Hungary, India, Indonesia, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Romania, South Africa, Turkey, Ukraine, Russia, Thailand.
Source: cbrates.com

balance of risks as the year progressed. Cumulatively, the policy rate was raised by 675 bps during FY22.

Policy rate was kept unchanged at 7 percent in July 2021

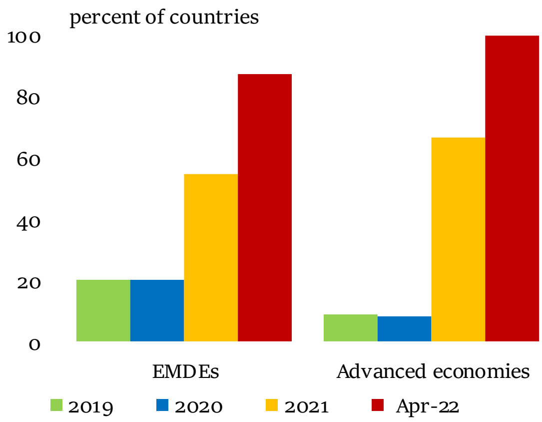
In its July 2021 meeting, the MPC decided to keep the policy rate unchanged at 7 percent. Macroeconomic indicators were showing an encouraging performance. Specifically, economic activity as gauged from LSM, and high frequency demand indicators continued to expand. Moreover, softening core and food inflation contributed to a decline in inflation momentum in May and June 2021, compared to April 2021. Similarly, consumer and business confidence had reached all-time highs, while inflation expectations had fallen in June 2021. In the external account, CAD touched a 10-year low level of 0.8 percent of GDP in FY21, driven by a notable expansion in workers' remittances and export receipts, which had partially outweighed a much larger increase in imports.

Based on the momentum in the economy, the pro-growth measures in the FY22 budget, and the impact of SBP's TERF facility and other refinancing schemes, real GDP growth was projected to recover to 4-5 percent in FY22, following the provisional growth estimate of 3.9 percent in FY21. Based on these numbers, demand-side pressures were judged to still be relatively muted.

As regards the external account, the CAD was projected to fall in a sustainable range of 2 - 3 percent of GDP in FY22, supported by continued resilience in remittances and exports. Furthermore, the country's foreign exchange reserves were expected to follow an upward trajectory in FY22 due to adequate availability of external financing.

With improvement in the inflation outlook, national CPI inflation was projected to moderate to 7 - 9 percent. In line with the SBP's policy on forward guidance,[15] the MPC noted that price pressures appeared largely supply-driven and transient. In the absence of unforeseen circumstances, monetary policy was expected to remain accommodative in the near term, and any adjustments in the policy rate would be measured and gradual. At the

Inflation Exceeding Targets **Figure 2.5**



Source : World Bank (June 2022)

[15] See, SBP Press Release: https://www.sbp.org.pk/press/2021/Pr-20-May-21.pdf

same time, the MPC noted that if signs emerged of demand-led pressures on inflation or of vulnerabilities in the current account, it would be prudent for monetary policy to begin to normalize through a gradual reduction in the degree of accommodation.

Policy rate was raised by 25bps to 7.25 percent in September 2021 as pandemic risks receded

In its September meeting, in line with the forward guidance provided previously, the MPC decided to signal a change in the monetary policy stance by raising the policy rates by 25 basis points to 7.25 percent. With uncertainties from the pandemic receding, this represented a shift in priority away from catalyzing the recovery towards protect its longevity, by keeping inflation expectations anchored and slowing the growth in the current account deficit.

At this point, the upward trend in global commodity prices as well as a stronger-than-expected rally in domestic demand was beginning to pose risks to the outlook for inflation and CAD. Specifically, the unabated increase in global commodity prices that ensued from supply chain disruptions, and increase in transport and freight rates, fueled imported inflation. The resultant external account pressures led to a 6.4 percent depreciation in PKR since the start of the fiscal year that exacerbated the impact of rising commodity prices. Hence, not only did monthly inflation momentum pick up in July and August 2021, but inflation expectations of both households and businesses also inched up.

At the same time, a significant increase in prices and volumes contributed to a sharp expansion in imports during July and August 2021, that outpaced a still-strong increase in exports and remittances, resulting in sizeable expansion in CAD for these months. However, the market based adjustment in exchange rate that resulted in the PKR depreciation to Rs 168.7 at the time of MPC meeting in September from Rs 161.3 in July and adequate availability of external financing helped shore up the SBP's foreign exchange reserves to US$ 20 billion as of August 2021.

The MPC noted that a flexible exchange rate had adequately played its role as a shock absorber and it was important that other policy levers such as interest rates also adjust in response to market dynamics. Thus, in the face of a widening current account deficit and upside risks to the inflation outlook, the MPC decided to increase the policy rate. This indicated a turning point as monetary policy shifted gears after maintaining a 14-month long spell of unchanged stance post-Covid.

Policy rate was raised by 150bps to 8.75 percent in November 2021 as risks shifted towards inflation and the current account

In its November MPC meeting, the MPC raised the policy rate by 150 basis points to 8.75 percent. This reflected the MPC's view that the balance of risks had shifted away from growth and toward inflation and the current account faster than expected. Accordingly, the MPC felt that there was now a need to proceed faster to normalize monetary policy to counter inflationary pressures and preserve stability with growth.

By November, like other countries around the world, Pakistan had to face the fallout of a faster than anticipated and persistent increase in global commodity prices. The prolonged supply chain disruptions and elevated energy prices fanned inflation across the world. In addition, a robust expansion in domestic economic activity further stoked inflationary pressures in September and October 2021. Inflation expectations of households remained elevated and those of businesses rose sharply amid rising risks from domestic administered prices. Increasing global commodity prices and the potential upward revision in administered energy prices were seen as presenting strong upside risks to the average inflation projection of 7-9 percent for FY22.

Similarly, with rising energy and services sector imports, the CAD also witnessed a large expansion in September and October 2021 and hence the exchange rate depreciated to Rs 175.2 at the time of the MPC meeting in November. This was despite some moderation in non-energy imports. Given these trends, the CAD was projected to modestly exceed the previous forecast of 2-3 percent of GDP in FY22. Meanwhile, domestic economic activity continued its momentum. The MPC, while showing confidence over the durability and sustainability of the economic recovery, noted upside risks to the real GDP growth projection for FY22 of 4-5 percent.

In addition to the policy rate hike, the SBP also introduced other measures to counter demand-side pressures on import payments. These measures included an increase in the cash reserve requirement (CRR) for commercial banks, tightening of prudential regulations (PRs) for consumer and auto financing, and imposition of cash margin restrictions (CMRs) on additional items. In addition, it was decided to increase the frequency of monetary policy reviews from six to eight times a year in continuation of efforts to make the process of monetary policy formulation more predictable, in line with international best practices.

Policy rate was raised by 100bps to 9.75 percent in December 2021 to quell inflation and imports

In its December meeting, the MPC decided to increase the policy rate by 100 bps, to 9.75 percent, in order to tame inflationary pressures and ensure the sustainability of economic growth. The MPC also provided forward-guidance stating that, based on current projections, monetary policy settings were expected to remain unchanged in the near term.

By the time the MPC met in December 2021, risks to the macroeconomic outlook had sharply increased. Driven mainly by the unrelenting increase in global commodity prices and continued expansion in domestic demand, month-on-month NCPI rose to a more than decade-high in November 2021. The trade deficit for the month also remained elevated. Meanwhile, high-frequency indicators of domestic demand suggested that economic growth remained robust.

In addition to the direct and second round effect of international commodity prices and expansion in domestic demand, the upward adjustment in domestic energy prices was also responsible for the rise in inflationary pressures. Given the broad-based inflationary pressures, MPC increased the inflation forecast range for FY22 from 7-9 percent to 9-11 percent.

On the external account, a historic high monthly import level of US$ 7.9 billion outpaced a yet strong growth in exports, leading to a significantly high monthly trade deficit of US$ 5.0 billion in November 2021. A substantial share of the increase in imports stemmed from the sharp rise in global commodity prices, in addition to some impact of domestic demand and the greater need for Covid vaccines. With these higher outturns, PKR continued its depreciation streak, falling to Rs 177.9 at the time of MPC meeting in December 2021. Taking into account these developments, the CAD projection was revised upward to around 4 percent of GDP from the earlier projection of 2-3 percent.

However, the MPC was optimistic about the outlook for global commodity prices going forward based on futures prices. The optimism mainly stemmed from the anticipated monetary policy tightening by major central banks, including the possibility of faster than anticipated tightening by the US Federal Reserve, and gradual ease in supply-chain disruptions. As a result, pressures on inflation and CAD were expected to moderate going forward.

Policy rate was kept unchanged at 9.75 percent in January and March 2022 on fiscal measures that improved the inflation outlook

In view of a slowdown in high frequency demand indicators, additional fiscal consolidation, emergence of the Omicron variant, moderating inflation momentum, considerable decline in inflation expectations, and expected improvement in the non-oil current account balance, the MPC decided to keep the policy rate unchanged at 9.75 percent in the MPC meetings in both January and March 2022 as foreshadowed through its forward guidance.

However, the MPC noted that the incipient Russia-Ukraine situation had triggered a high degree of uncertainty in the outlook for global commodity prices and external financial conditions, which could weigh on CAD and inflation expectations. Given this still-evolving shock, the MPC indicated it was prepared to meet earlier than the next scheduled meeting in late April, if necessary, to take timely and calibrated action to safeguard external and price stability.

The demand-management measures introduced by SBP, including a cumulative 275 basis point tightening of policy rate in a span of four months, increase in cash reserve requirements, revision in prudential regulations for consumer financing, and measures to curtail non-essential imports, had started bearing results. In line with these policy efforts, high frequency demand indicators were showing signs of moderation in economic activity during the second quarter of FY22 and the initial months of 2022, thus, improving the outlook for inflation and CAD. On the supply side, LSM growth slowed amid supply-chain disruptions as well as increase in input costs. In addition, the enactment of the Finance (Supplementary) Act, 2022 represented significant additional fiscal consolidation compared to the budget and had lowered the outlook for both growth and inflation in FY23. The sudden global emergence of the Omicron wave also suggested risks to growth. Amid these developments, the projection for LSM growth was revised down and real GDP growth for FY22 was now expected around the middle of the forecast range of 4-5 percent.

With the sharp increase in policy rate, inflation momentum, as gauged by month-on-month inflation, weakened during December 2021. The inflation expectations of businesses fell in December 2021; whereas, confidence of consumers remained broadly stable. Headline inflation edged down from 13 percent in January 2022 to 12.2 percent in February 2022, driven primarily by an administrative slowdown in inflation in electricity tariffs following reduction in the fuel cost adjustment (FCA). Furthermore, core inflation ticked down in urban areas, while inflation expectations of both consumers and businesses remained broadly unchanged from the last iteration. Moreover, the government announced a relief package during March 2022, introducing cuts in fuel prices and electricity tariffs, which improved the outlook for inflation in the remaining months of FY22 as long as it was fully funded and budget neutral.

On the external front, excluding energy and vaccines, imports had stabilized during November and December 2021, suggesting adequacy of monetary policy stance. Imports recorded sharp and broad-based monthly declines in January 2022 and February 2022. As exports continued to increase, the trade deficit posted a notable m-o-m contraction during February 2022, compared to its peak in November 2021. A substantial share of the increase in imports stemmed from higher prices, while the contribution from volume growth remained lower in January 2022. Reflecting placating external account pressures PKR slightly appreciated to Rs 176.5 at the time of January MPC meeting, before depreciating again to Rs 178.6 in March 2022.

Policy rate was increased by 250bps to 12.25 percent in April 2022 as global commodity prices surged in the wake of the Russia-Ukraine conflict and domestic policy uncertainty spiked

At a time when domestic macroeconomic stability was within sight and key macroeconomic indicators began to move towards sustainable levels, the eruption of the Russia-Ukraine conflict unsettled financial markets and introduced a fresh wave of uncertainty in the global economy which, in turn, intensified existing inflationary pressures through a further oil price shock. In this situation, the unfolding developments called for an emergency MPC meeting in April 2022, as foreshadowed in the previous meeting.

In view of this deterioration in the inflation outlook and sharply increased risks to external stability, the MPC noted that a material monetary policy response was warranted. Accordingly, the MPC decided to raise the policy rate by 250 basis points to 12.25 percent. The MPC also noted that the SBP was taking further policy actions to contain pressures on inflation and the external account. These included increasing the interest rate for EFS from 3 percent to 5.5 percent; and adding 177 items to the list of imports subject to CMRs.

As the impact of the Ukraine conflict propagated globally through supply chain disruptions, resulting in a fresh hike in commodity prices and tightening in financial market conditions, it also worsened the outlook for inflation and external account of Pakistan. It was anticipated that oil prices would remain higher for longer, posing upside risks to domestic inflation. Furthermore, while introducing its first rate hike since 2018 in March 2022, the US Federal Reserve outlined its program of aggressive tightening of Fed rate during 2022. This, along with anticipated aggressive monetary tightening by other major central banks, threatened to lead to a significant tightening in global financial conditions. Like other emerging economies, Pakistan also experienced net capital outflows and rising CDS spreads, which increased the cost of external financing and accentuated external account pressures.

Despite the successful impact of demand management policies and consistent increase in exports and remittances that led to a considerable decline in CAD in February 2022, Pakistan's 10-year Eurobond yields increased significantly, whereas the CDS spread was at its highest level since 2013 and the PKR depreciated to Rs 188.2 since the last MPC meeting. As explained, this was mainly on account of uncertainties on the political front and the resumption of the IMF program. The worsening economic outlook, PKR depreciation, and further hike in the US federal funds rate introduced significant upside risks to the inflation and balance of payments outlook. Accordingly, the average inflation forecast for FY22 was revised upwards to slightly above 11 percent.

Policy rate was increased by 150bps to 13.75 percent in May 2022 on stronger-than-expected demand pressures

In its final meeting of FY22, the MPC raised the policy rate by 150 basis points to 13.75 percent. This action was motivated by evidence of a much stronger demand recovery from Covid in FY22 than previously anticipated, still-elevated external pressures and a deterioration in the inflation outlook. The MPC was of the view that this action, together with much-needed fiscal consolidation, should help moderate demand to a more sustainable pace while keeping inflation expectations anchored.

Some fresh risks to the inflation outlook had emerged when the MPC met in May 2022. Specifically, the expansionary fiscal policy stance and the energy subsidy package kept domestic demand stronger than expected. Indeed, at 5.97 percent, provisional estimates suggested that growth in FY22 was much stronger than expected, indicating that demand-side pressures in inflation were more severe than anticipated and the output gap was positive. Meanwhile, inflation outlook had deteriorated due to both home-grown and international factors, Inflation had intensified globally because of the worsening Russia-Ukraine conflict alongside supply chain disruptions emerging from a new Covid wave in China. As a result, headline inflation spiked to a two-year high level in April 2022. Inflation momentum also picked up as core inflation strengthened further in rural and urban areas. The rise in core inflation reflected strong domestic demand and second-round effects of supply shocks. Taking these developments into account, the MPC projected inflation to increase and remain elevated through the next fiscal year.

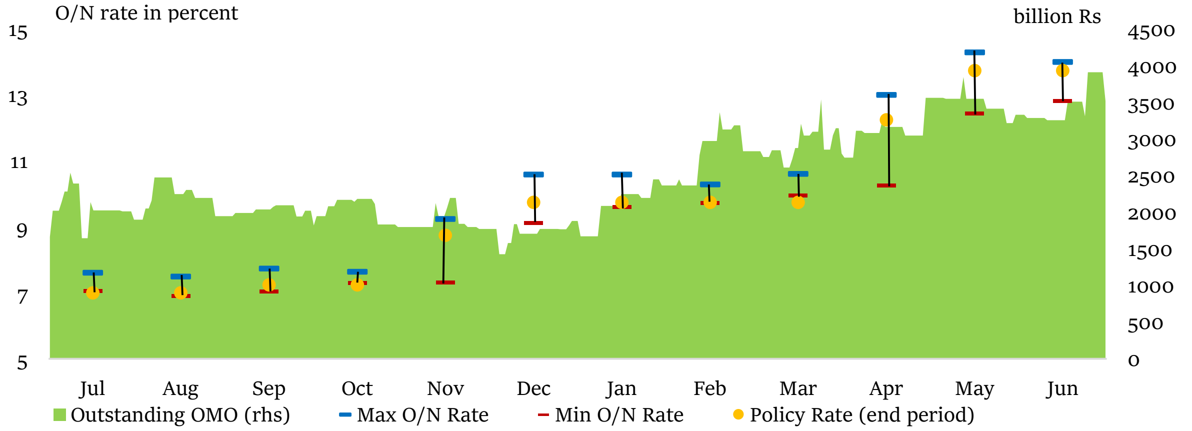
On the external front, the CAD in April fell to less than half of the average observed during FY22. However, the Rupee depreciated further to Rs 200.9 due both to domestic uncertainty as well as strengthening of the US dollar in international markets following tightening by the Federal Reserve at the time of MPC meeting in May 2022. The CAD trend was in line with SBP's projection for FY22 at 4 percent of GDP during the year.

2.3 Monetary Policy Implementation

Interbank liquidity conditions remained constrained

The liquidity conditions in the interbank money market remained tight relative to the

Interbank Liquidity Indicators in FY22 **Figure 2.6**



Source: State Bank of Pakistan

previous year, during FY22. This was reflected by the average outstanding OMOs that almost doubled from Rs 1,289.5 billion in FY21 to Rs 2,479.9 billion during FY22. However, in spite of these voluminous injections, the money market remained more volatile in FY22 compared to last year, indicating heightened deviations of the overnight rate from the policy rate in an increasing interest rate scenario. Key factors contributing to high money market rates were the market's expectations of rate hikes in the light of rising inflationary and external account pressures; growing budgetary borrowing needs of the government; and greater demand for credit from the private sector **(Figure 2.6).**

Liquidity conditions eased temporarily towards the end of H1-FY22

During H1-FY22, the average absolute deviation of the overnight rates from the policy rate increased to 33 basis points compared to 25 basis points in the same period last year. On a quarterly basis, the money market showed signs of liquidity pressures throughout Q1-FY22. This was evident from an increase in the average OMO injections that rose to Rs 2,092.4 billion compared to Rs 1,048.3 billion in the same period last year. From November 2021 onwards, SBP's money market injections slowed down. This was on account of two factors. First, improvement in deposit mobilization; and second, a slowdown in government borrowing from commercial banks following the on-lending of the additional SDR allocation from the IMF.[16] Therefore, the average outstanding OMO injections fell to Rs 1,875.0 billion in Q2-FY22 from Rs 2,092.4 billion in the preceding quarter.

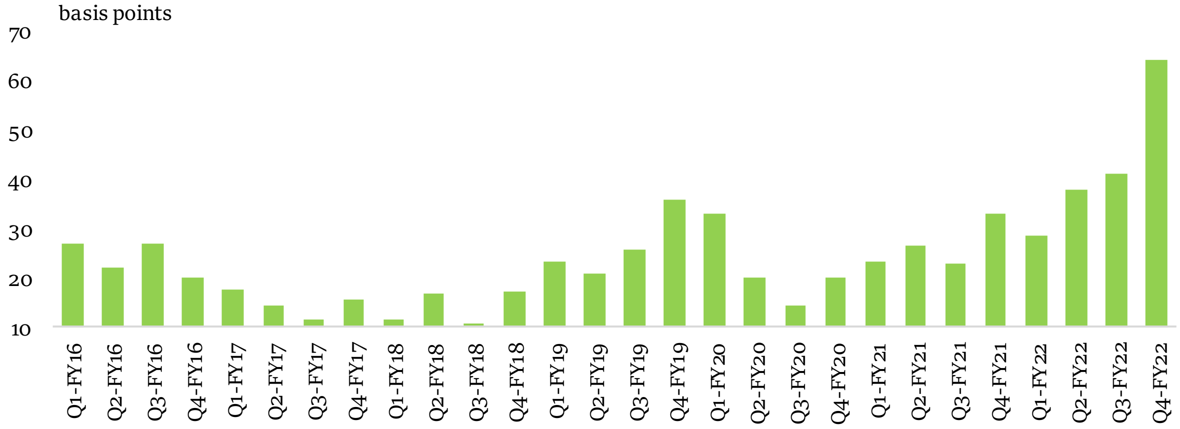
Liquidity pressures amplified in H2-FY22

In comparison to H1-FY22, the liquidity pressures intensified further together with heightened expectations of interest rate hikes during H2-FY22 (**Figure 2.7**). The average absolute deviation jumped to 53 basis points during H2-FY22 from 28 basis points during H2-FY21 and 33 basis points in first half of the fiscal year. Both demand- and supply-side factors contributed towards liquidity pressures in the interbank market.

On the demand side, the first factor was increased budgetary borrowings from scheduled banks during H2-FY22 against H1-FY22. Second, YoY growth in private credit offtake kept banks' liquidity needs elevated. And third, the increase in CRR in November 2021 to contain the expansion of money supply increased the liquidity requirements of commercial banks as they had to maintain more cash reserves as percent of their demand liabilities and time deposits (with tenor of less than one year) with the central bank.

[16] Pakistan received US$ 2.8 billion from the IMF under the global SDR allocations during Q1-FY22. In November 2021, this amount was on-lent to the government for financing of Covid vaccine drive.

Average Absolute Deviation of Overnight Rates From the Policy Rate **Figure 2.7**



Source: State Bank of Pakistan

As for the supply of funds, the deposits of the scheduled banks fell by Rs 206.2 billion in Q3-FY22 compared to an increase of Rs 125.9 billion during the same period last year. However, the deposit mobilization started to gain some momentum from May 2022 onwards.

All of these factors combined, required higher money market interventions. Consequently, the average OMO injections during H2-FY22 increased to Rs 2,984.7 billion compared to Rs 1,983.3 billion in H1-FY22.

Measures taken by SBP to ease interbank liquidity conditions

Besides increased volume and frequency of OMOs, the SBP also took other measures to counter the high liquidity requirements of commercial banks and elevated level of deviation of overnight rates from the policy rate. The MPC issued forward-guidance through the monetary policy statements to minimize interest rate volatility and manage interest rate expectations of market participants. SBP also introduced a Shariah Compliant Standing Ceiling Facility and Open Market Operations (injections) for Islamic Banking Institutions (IBIs). In addition to this, SBP also conducted eight 63-day OMO injections during Dec-Jun FY22 and one 77-day OMO injection on June 30, 2022. This was expected to ease liquidity situation in the market to counterbalance the impact of market's heightened expectations of interest rate hike that was leading to decoupling of short-term rates from the policy rate

3 Financial Stability[17]

3.1 Financial Stability Assessment

The fiscal year 2022 was marked with the emergence and build-up of current account deficit and inflationary pressures as well as the recurrence of a couple of COVID-19 waves. In the wake of growing macroeconomic imbalances and to preserve macro-financial stability, SBP took a number of monetary policy and macro-prudential measures.

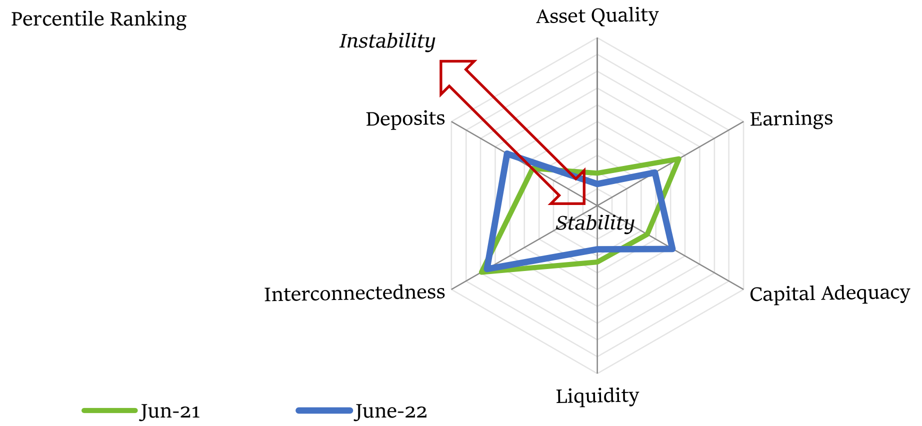
As discussed in chapter 2, SBP raised the policy rate by a cumulative 675 basis points since September 20, 2021 (till end of FY22), increased the cash reserve requirement (CRR) by one percentage point to 6 percent, introduced various measures to discourage the import of non-essential items, and tightened prudential regulations for consumer financing to contain its growth and mitigate the associated risks.

Despite this challenging macroeconomic picture and policy landscape, Pakistan's financial sector continued to demonstrate financial stability, the second statutory objective entrusted to SBP.

One of the approaches to gauge financial stability relates to assessment of key Financial Soundness Indicators (FSIs) of banking sector that reflect the sector's financial health, performance and its ability to withstand severe shocks, which are discussed in the following paragraphs. However, various stability maps such as banking sector stability (BSS) map[18] are also utilized to assess pictorially different dimensions of risk.

The BSS map for June-2022 compared with June-2021 shows that earnings, assets quality, liquidity position, and interconnectedness improved over the year (**Figure 3.1**). However, there was slight moderation in deposit growth vis-à-vis overall asset base, while strong growth in loans and advances led to slight decrease in capital adequacy indictors. Nonetheless, capital adequacy ratio (CAR) of

Banking Sector Stability Map **Figure 3.1**



Source: State Bank of Pakistan

[17] This section mainly covers the financial performance and resilience of SBP's regulated institutions.

[18] Banking Sector Stability Map (BSSM) covers the risks faced by the banking sector in six dimensions. These dimensions are Asset Quality, Earnings, Capital Adequacy, Liquidity, Interconnectedness and Deposits. Based on each series (of different variables in each risk dimension), the percentile rank for each quarter of the variable is computed. The percentile ranking is normalized in the scale of (0 to 10) i.e. divided by 10; percentile rankings of indicators with positive impact are subtracted from 100 since lower values indicate more stability. A summary measure for each dimension based on the weights assigned to each series is obtained which are plotted. For any risk dimension, increasing value (0-10 range) at a given point of time shows the relative movement of riskiness when compared to a previous period. The Methodology is based on P. Dattels, R. McCaughrin, K. Miyajima, and J. Puig (2010). *Can you map global financial stability?* IMF Working Paper No. 2010/145. Washington D.C.: IMF.

the banking sector remained well above the minimum regulatory requirement and international standard of 11.5 percent and 10.5 percent, respectively.

Banks in Pakistan are mainly engaged in banking business of mobilizing deposits and extending credit in the form of loans and investments. Therefore, among the financial risks faced by the sector, credit risk remains the leading risk, followed by the operational and market risks.[19]

Asset Quality and Credit Risk

Asset quality indicators of banking sector and DFIs showed improvement during FY22, while that of microfinance banks (MFBs) deteriorated (**Table 3.1**). The non-performing loans (NPLs) to loans ratio of banks and DFIs declined as there was relatively stronger growth in the loan portfolio while NPLs witnessed a contained increase in case of banks and declined in case of DFIs in FY22. Since more provisions were set aside to cover the loan losses, the net NPLs ratio (i.e. NPLs net of provision to net Loans) came down signifying the reduction in risk to solvency from the delinquent portfolio.

On an overall basis, the credit risk of the banking sector remained contained as asset quality indicators illustrated visible improvement. Further, the debt repayment capacity and earnings of the corporate sector – which utilizes the major part of banks' loans – posted marked improvements.[20] The stress testing results for credit risk also show that the existing NPL ratio of the banking sector (i.e. 7.5 percent) is significantly lower than critical NPL ratio (i.e. 35.2 percent) at which the capital of the sector is likely to wipe out due to severe increase in NPLs.

Within banking sector, IBIs' asset quality indicators continued to show better position compared to conventional counterparts and made further improvement during FY22. Non-Performing Financing (NPFs) to total financing ratio declined to 2.6 percent in FY22 from 3.3 percent in FY21, and provisioning to NPFs ratio increased to 90.5 percent from 84.5 percent in

Key Financial Soundness Indicators of Banks, DFIs and MFBs — **Table 3.1**

		Dec-19	Dec-20	Jun-21	Dec-21	Jun-22
	As % of Total FSA*	Percent				
Asset Quality Indicators						
NPLs to Total Loans						
Banks	76.4	8.6	9.2	8.9	7.9	7.5
DFIs	1.4	14.5	12.8	12.8	9.5	8.6
MFBs	1.5	5.3	3.3	5.4	5.2	6.5
Provision to NPLs						
Banks	76.4	81.4	88.3	88.8	91.2	91.6
DFIs	1.4	74.4	77.8	74.9	84.9	86.1
MFBs	1.5	70.0	106.5	69.3	78.1	73.4
Net NPLs to Net Loans						
Banks	76.4	1.7	1.2	1.1	0.7	0.7
DFIs	1.4	4.2	3.1	3.5	1.6	1.3
MFBs	1.5	1.7	-0.2	1.7	1.2	1.8
Net NPLs to Capital						
Banks	76.4	8.9	5.3	5.1	4.0	3.8
DFIs	1.4	3.3	2.7	3.1	1.6	1.5
MFBs	1.5	6.5	-0.9	7.5	5.4	11.0
Solvency Indicators						
Total Capital to Total RWA^						
Banks	76.4	17.0	18.6	18.3	16.7	16.1
DFIs	1.4	44.9	43.1	40.3	38.7	36.4
MFBs	1.5	20.9	19.0	19.1	18.3	14.9
Tier 1 Capital to Total RWA						
Banks	76.4	14.0	14.8	14.6	13.5	13.4
DFIs	1.4	43.7	41.7	39.1	38.2	35.7
MFBs	1.5	17.8	15.3	15.3	14.3	11.4
Earnings Indicators						
ROA before Tax						
Banks	76.4	1.5	1.8	1.6	1.6	1.9
DFIs	1.4	3.3	4.1	2.8	3.0	1.8
MFBs	1.5	-1.7	-0.8	-0.6	-1.3	-2.1
ROE before Tax						
Banks	76.4	20.1	23.2	23.5	24.0	30.7
DFIs	1.4	8.9	13.6	10.3	11.1	8.2
MFBs	1.5	-12.4	-7.1	-5.5	-12.7	-22.7

*Total FSA= Total Financial Sector Assets stood at Rs 39,339 billion of CY21
^ CAR Requirement= For Banks/ DFIs = 11.5 percent; For MFBs = 15 percent
Source: State Bank of Pakistan

[19] Credit risk accounts for around 80 percent of the overall capital requirements of banking sector under Basel-III capital adequacy standards as implemented in Pakistan. The market risk and operational risk account for 5.6 percent and 14.8 percent of overall capital requirement, respectively.
[20] As per SBP's assessment, the earnings of selected 100 listed firms increased by more than 45 percent during CY21 (for details see Financial Stability Review 2021, https://www.sbp.org.pk/FSR/FSR.htm)

FY21. Accordingly, Net NPFs to capital ratio came down to 2.0 percent from 3.8 percent a year earlier, manifesting muted risk to the solvency of IBIs from delinquent loan portfolio.

As far as the credit risk from the COVID-19 pandemic and expired debt-relief scheme is concerned, the overall recovery rate remained satisfactory in banks' loans which were deferred and restructured under the scheme.

In the wake of the pandemic, asset quality of MFB sector, however, came under further stress as mobility restrictions and precautionary measures severely impacted the repayment capacity of the MFBs' traditional low net worth borrowers and disrupted the institution-borrower relationships. As a result, the overall infection (NPLs to Loan) ratio of this sector increased and earnings indicators deteriorated due to increase in provision charges.

Market Risk and Exposure to Sovereign

Though there was significant volatility in the financial markets, the market risk dynamics of SBP's regulated institutions in general remained satisfactory due to limited market-related exposures and sufficient capital cushions. The market risk charge accounts for only 5.6 percent of the overall capital requirement of banking sector, and stress testing results show adequate resilience of banking sector against shocks to financial prices.[21] It is important to note that SBP has put in placed prudent regulatory limits on banks' holding of FX and equity exposures.[22] Accordingly, institutions' exposures remain quite contained e.g. banks' investments in equity stock was only 7.2 percent of their capital in Jun-22.

Banks' investment in government papers continued to increase during the reviewed period due to higher budgetary needs of the government. These investments reached 47.5 percent of banking sector's total asset base. This high level of investment in government papers exposes banks to interest rate risks.

Liquidity

Liquidity profile of the banking sector in terms of balance sheet composition remained comfortable. The ratios of liquid assets to total assets (at 58.5 percent), liquid assets to deposits (at 86.0 percent) and liquid assets to short term liabilities (at 105.2 percent) as of end June-22, suggest a comfortable liquidity profile of banks.

Statutory liquidity requirements (SLR) have been set to, inter alia, ensure that regulated institutions maintain enough liquid asset with them to honor their obligations. Besides, SBP requires banks and DFIs to maintain Liquidity Coverage Ratio (LCR) of at least 100 percent in line with Basel-III international standards on liquidity. During FY22, banks maintained LCR at 202 percent. Similarly, in terms of long-term liquidity requirements under Basel-III standard, the aggregate Net Stable Funding Ratio (NSFR) of banking sector at 161 percent (against the regulatory requirement of 100 percent) indicate a comfortable liquidity position of the sector. [23]

Strong growth in banks' asset base, particularly the investment in government papers and advances vis-à-vis growth in deposits, led the banks to increase borrowings from SBP. It is important to note that for dealing with fluctuations in liquidity conditions, SBP has different tools to manage

[21] As per latest sensitivity (stress testing) analysis for Jun-2022, even after a severe 30 percent hypothetical depreciation of PKR, banks' CAR stays well above the regulatory requirement of 11.5 percent. Similarly, banking sector in general shows adequate resilience to assumed severe shocks in equity prices i.e. fall by 40 percent and interest rates i.e. increase in yield curve by 300 bps.

[22] Banks are assigned quite conservative foreign exchange exposure limits according to their paid up capital and market activity, while aggregate equity investment limit for banks and deposit mobilizing DFIs is 30 percent of their respective equity.

[23] LCR was introduced in the light of lesson learnt in global financial crisis of 2008-09. It states that a bank should have high-quality liquid assets to cover 100 percent of the liabilities maturing in next 30 days. Similarly, NSFR standard focuses on long-term funding profile. It requires that a bank should have stable funding available with it to cover the at least 100 percent stable funding needs of its business.

liquidity in the market. These include liquidity management through Open Market Operations in the market and standing facility for individual banks whereby a bank can deposit excess liquidity with SBP and borrow at ceiling rate to meet its overnight liquidity needs. These facilities help banks to manage their asset-liability mismatches and help SBP in keeping the overnight rate close to SBP policy rate. During FY22, SBP further extended the coverage of this stand-by financing facility by introducing Shariah compliant standby facility for Islamic Banking Institutions (IBIs), thus facilitating the IBIs in the managing their short-term liquidity needs.

Earnings

Banks' earnings (profit after tax) rose by 10.9 percent in FY22 to PKR 267.5 billion (PKR 241.2 billion in FY21). However, on the back of the significant increase in asset base, the baseline profitability indicators i.e. after tax ROE and ROA - moderated to 12.9 percent in June-22 (from 13.3 percent in June-21) and 0.8 percent in June-22 (from 0.9 percent in June-21), respectively. It is important to note that banks posted healthy growth in pre-tax profits (i.e. 29.5 percent growth) and operating efficiency; however, the increase in tax rates via the Finance Act 2022 significantly dampened growth in the bottom line as well as capital base. The growth in pre-tax profit mainly came from increase in net interest income, lower loan loss provisioning (as there was contained flow of additional NPLs) and revival in fee-based income as economic activities posted strong revival due to effective management of COVID-19 and extensive vaccination drive.

Solvency and capital adequacy

The solvency position of the banking sector remained steady. Although the CAR of banks came down slightly due to increase in their loan portfolio, however, the ratio of 16.1 percent remained well above the minimum regulatory requirement (11.5 percent). Within the banking sector, the CAR of IBIs slightly moderated to 16.4 percent in FY22 from 17.0 percent a year ago. This slight reduction reflects better utilization of capital that will in turn support the capital position through improved earnings and facilitate economy activity. Likewise, the solvency profile of DFIs remained strong as their CAR at 36.4 percent was well above the minimum standard. The aggregate CAR of MFBs sector moderated to 14.9 percent at end June-22, which was quite close to the minimum regulatory requirement of 15.0 percent.

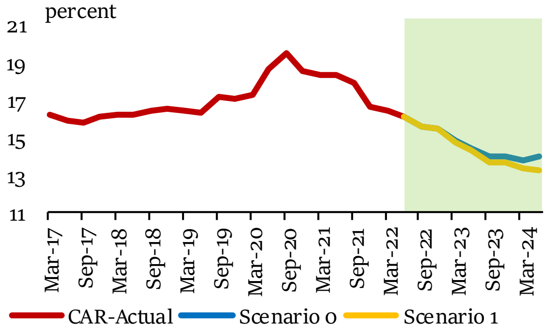
The banking sector is faced with an increasingly challenging environment. Ongoing macroeconomic pressures have been compounded by recent torrential rains and flooding in many parts of the country that caused heavy losses to human lives as well as crops, livestock, dwellings and infrastructure. These losses are likely to weaken repayment capacity of borrowers in agriculture sector and low net worth borrowers of MFBs. The second-round effect of these floods may affect the financial performance of some agri-based sectors e.g. cotton, fertilizer, etc. as well as the economy in general can come under stress.

SBP regularly conducts stress testing exercise, which is aimed at gauging the state of resilience of the banking sector to the severe but plausible shocks and to identify the vulnerable spots in the sector. The latest results of the stress testing exercise suggest that the sector in general has adequate buffers to withstand severe hypothetical shocks to key risks factors including credit, market, and liquidity risks.[24] Moreover, under assumed severe stressed economic conditions, the CAR of the banking sector is likely to remain well above the regulatory standard over a projected period of three years (**Figure 3.2**). In this regard, the large sized banks, which are crucial for overall financial stability in the economy, in particular, have relatively higher resilience in terms of capital buffers.

The soundness of individual financial institutions, especially the larger ones, is

[24] Results of SBP latest stress testing shows that the banking sector is resilient to various hypothetical but plausible credit, market and liquidity shocks. For details see Table 1.15: Stress Testing Results of the Banking System available at: https://sbp.org.pk/ecodata/fsi/qc/2022/Jun.pdf

Capital Adequacy Ratio -actual and Projected under business as usual and stress conditions **Figure 3.2**



Note: Scenario 0 = business as usual, Scenario 1 = Stress conditions.
Source: SBP Staff Estimates

corner stone of financial stability. In this regard, the credit rating of individual institutions, as assigned by independent credit rating agencies, suggest that banking, DFI and MFB sectors on overall basis have quite strong credit worthiness. The institutions in general have very strong to satisfactory ratings, indicating that they have concomitant ability to honor their obligations and maintain solvency against untoward stress events (**Table 3.2**).

Further, a comparison of leading FSIs of banking sector of Pakistan with peer countries exhibit relatively better performance in terms of solvency and earnings indicators, while credit risk indicators show continuous improvement over the recent years (**Table 3.3**).

3.2 Strengthening of Institutional Arrangements on Financial Stability and Current Priorities of SBP

The sound and smooth functioning of the banking sector, even in the face of various

Credit Ratings of Banks, DFIs and MFBs **Table 3.2**

Credit Rating (long-term)	Market Share by Rating Category (percent)		
	Banks	DFIs	MFBs
AAA	65	55.7	-
AA	26.8	41.1	-
A	7.8	3.2	95.6
BBB (investment grade)	0.4	0	4.4
< BBB	0.02	0	0
	100	100	100
Sector's relative share	96.1	2.2	1.7

Source: PACRA, VIS, Moody's and SBP

challenging episodes of stressful conditions over the years, manifests the effectiveness of the micro prudential regulatory and supervisory regime duly supported by macroprudential surveillance framework that SBP has developed and implemented over the period. A brief overview of this framework is as follows:

Legal framework

Legal framework sets the mandate and responsibilities of SBP and empowers the Bank to issue regulations as well as supervise banks and take corrective measures for redressing any supervisory concerns and orderly resolving weak financial institutions.

SBP's regulatory framework

SBP's regulatory framework comprises guidelines and prudential regulations which provide necessary guidance and minimum standards of prudence in different key areas

Core Financial Soundness Indicators **Table 3.3**

Percent

	2018	2019	2020	2021
CAR: Regulatory Capital to Risk-weighted Assets				
Bangladesh	10.5	11.6	11.6	11.1
India	12.9	15.4	15.6	14.8
Indonesia	21.0	21.6	22.1	24.0
Malaysia	18.1	18.6	18.9	19.2
Pakistan	16.2	17.0	18.6	16.7
NPLR: Nonperforming Loans to Total Gross Loans				
Bangladesh	9.9	8.9	7.7	8.0
India	9.5	9.2	7.9	6.5
Indonesia	2.2	2.3	2.6	2.6
Malaysia	1.5	1.5	1.6	1.5
Pakistan	8.0	8.6	9.2	7.9
Return on Assets (ROA)[a]				
Bangladesh	0.9	1.2	0.8	0.7
India	0.0	0.5	0.8	1.1
Indonesia	2.5	2.5	1.5	1.8
Malaysia	1.4	1.5	1.1	1.2
Pakistan	1.3	1.5	1.8	1.6
Return on Equity (ROE)[b]				
Bangladesh	4.4	7.8	5.0	5.0
India	-0.2	2.8	7.3	9.9
Indonesia	13.3	12.3	7.1	9.0
Malaysia	9.9	10.2	7.5	8.4
Pakistan	10.7	11.3	13.8	14.0

[a] ROA is on pre-tax basis; [b] ROE is on after tax basis
Source: Haver Analytics- IMF

including licensing, governance, risk management, capital adequacy in line with Basel-III standards, lending to different segments (including large corporations, SMEs, agriculture, microfinance, and consumer), AML/CFT, operations, consumer protection and fair-treatment of customer, financial disclosures, etc.

Surveillance framework

Surveillance framework ensures that regulated institution function in orderly manners and prudently manage their risks. SBP supervises regulated institutions using a risk-based supervisory framework (RBS) on ongoing basis and takes necessary corrective actions to address any supervisory concerns. Besides the institution-specific micro-prudential risks, supervisory process also covers the macro-prudential risks. Accordingly, systemic risks arising from business cycles or the structure of financial sector are assessed on regular basis. For this purpose, SBP carries out thematic inspections on crucial issues and conducts scenario analysis of banks' ability to withstand severe macroeconomic shocks over a protracted period of time. SBP also periodically shares its findings on the state of financial stability through various publications.

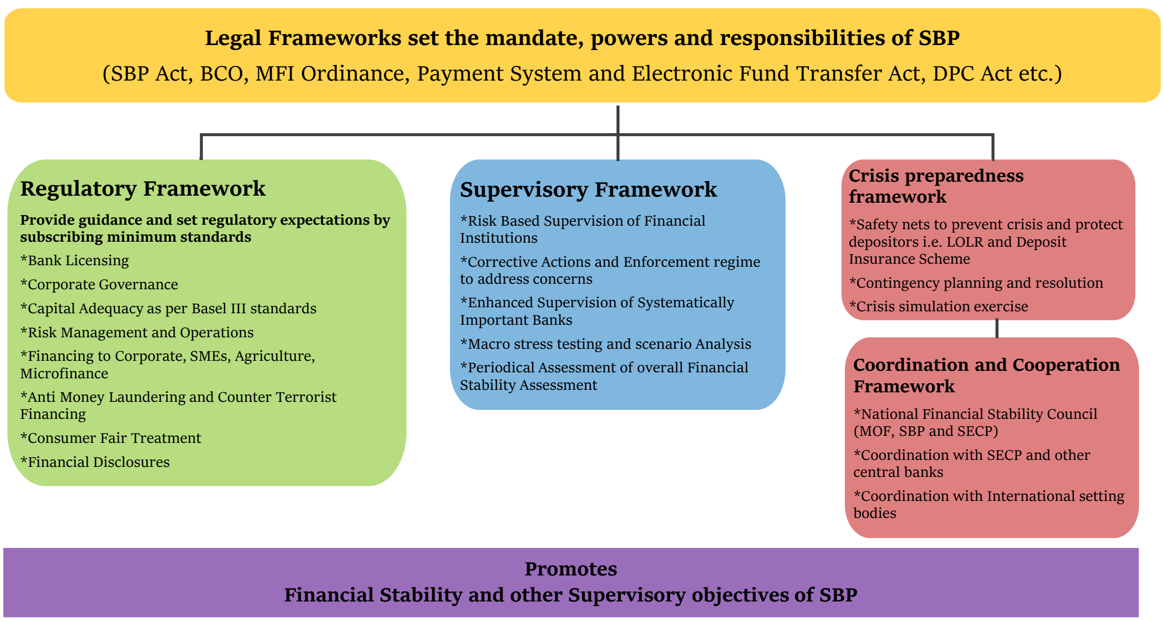
Safety nets and bank resolution framework

SBP has put in place necessary safety nets and bank resolution framework to cope with crisis situations. Since failure of a systemically important bank can have severe repercussions for the economy and can lead to financial crisis, comprehensive safety nets have been put in place to prevent the failure of such banks. Further, Deposit Protection Corporation has been established as a subsidiary of SBP for protection of small depositors of failed banks through deposit insurance scheme. Moreover, necessary legal powers and arrangements are in place for orderly resolution of weak banks so as to avoid panic in the market and losses to the economy and national exchequer.

Keeping in view the fact that inter agency cooperation is important for financial stability, SBP has set up an effective coordination mechanism with Ministry of Finance (MoF), SECP as well as the central banks and bank regulators of other countries **(Figure 3.3).**

It is important to note that SBP regularly reviews and updates its supervisory framework in the light of emerging best practices and changing dynamics of the market. While a brief of various measures that

Key Elements of SBP's Regulatory and Supervisory Frameworks **Figure 3.3**



Source: State Bank of Pakistan

SBP has taken during FY2022 are given in **Figure 3.4**, it is important to highlight some key trends and priorities that are particularly important for the performance and stability of the banking sector in the current scenario.

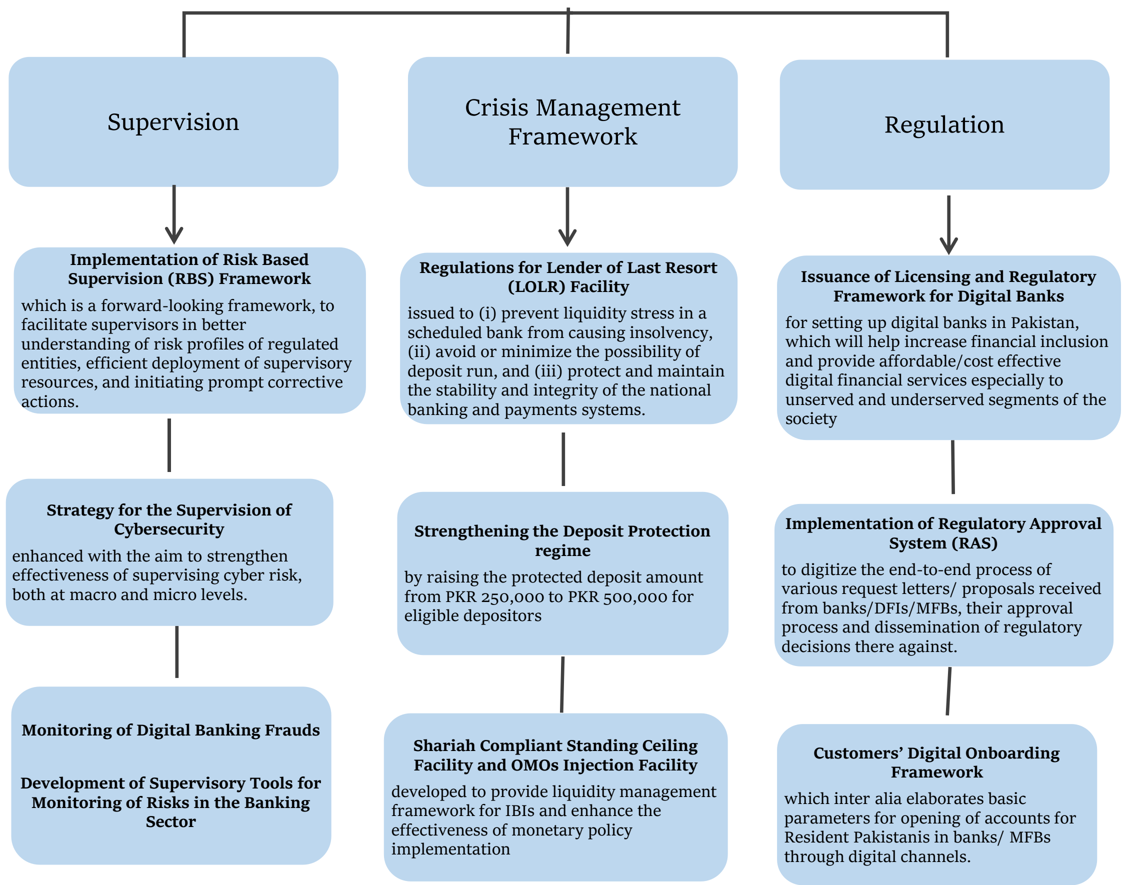
Adoption of Risk-Based Approach in Supervision

In order to infuse efficiency and effectiveness in the supervisory system to monitor financial standing and risks of regulated institutions, SBP graduated from traditional CAMELS[25] model of supervision to a more risk-based approach of supervision during FY2022. The key principles of RBS approach include forward-looking framework, coverage of all internal and environmental risks in structured manner, risk focused allocation of supervisory resources, exercise of judgement based on qualitative and quantitative factors in systematic manner, and ongoing supervision and intervention for early resolution of supervisory concerns.

Strengthening of Crisis Management framework and safety nets

With a view to ensure financial stability and further strengthen the safety nets, SBP implemented new measures including a) regulations for lender of last resort facility along with necessary operational framework. These regulations will allow provision of short

Key Measures to Strengthen Financial Stability Framework-FY22 **Figure 3.4**



Source: State Bank of Pakistan

[25] CAMELS is a traditional model of supervision which assess the financial standing of a regulated financial institution at a specific point in time along key factors i.e. Capital adequacy (C), asset quality (A), management's quality (M), earnings (E), liquidity (L), and effectiveness of systems and controls (S).

term financing to a solvent banking institution including IBIs facing liquidity stress so to prevent the failure of such a bank; b) Shariah Compliant Standing Ceiling Facility and Open Market Operations (injections) has been introduced to facilitate in liquidity management for IBIs; and c) Deposit protection regime has been strengthened through enhancement of the limit of protected deposits from PKR 250,000/- to PKR 500,000/-

Anti-Money Laundering, Countering Terrorist Financing & Countering Proliferation Financing (AML/CFT/ CPF)

Effective AML/CFT/CPF framework has great significance for economic growth and financial stability. The global community is giving increased importance to eradicate the menace of ML, TF and PF, and various measure are being implemented for this purpose e.g. FATF standards. Accordingly, SBP has instituted a comprehensive regulatory and supervisory framework for ensuring the integrity of the banking system so that it may not be misused for financial crimes. It is important to note that earlier in June 2018, Pakistan was identified as a jurisdiction with strategic AML/ CFT deficiencies. The country agreed with FATF on a 27-point action plan to remove the deficiencies; 9 of these action points pertained to financial sector supervision. SBP actively took various measures to comply with its relevant action plan early on, and also supported other key stakeholders including the focal agency on AML/CFT/CPF i.e. Financial Monitoring Unit (FMU) by providing expertise and resources that assisted in the completion of other action plans as well. During the period under review, SBP also conducted a system-wide thematic evaluation of banks' preparedness against emerging ML/TF Risks.

Digital Finance

The use of digital financial services has significantly increased in recent years. The COVID pandemic in particular has given an impetus to the acceptability and use of digital financial services by customers. Digitization of financial services not only enhances the customer convenience and efficiency in the delivery of services, it has great potential to promote the financial inclusion in economy. Realizing the importance of digital finance and innovation, SBP endeavors to provide an enabling regulatory framework which facilitates innovation and sustainable growth of digitization. In this regard, SBP developed a comprehensive Payment System Strategy, and over the recent years issued various instructions and guidelines to promote the digitization of services and facilitate and encourage the customers for their use. During FY2022, SBP has, inter alia, introduced a licensing and regulatory framework for setting up digital banks in Pakistan and provided digital on-boarding framework which allows the opening of customers' accounts remotely through internet, mobiles phones etc. SBP also launched first instant payment system of Pakistan i.e. Raast which has greatly revolutionized payments by enabling instantaneous end-to-end payments among market participants. It is presently covering person-to-person (P2P) and bulk payments, and going forward will cover the entire spectrum of payments including Person-to-Merchant (P2M) payments.

Increasing use of digital financial services also involves risks related to security of these mediums and users' trust. In order to cope with these risks, SBP took various initiatives e.g. different guidelines and instructions have been prescribed to standardize security requirements of various digital financial products/services such as for payment cards, internet banking and enterprise security. During FY22, SBP issued common standard and regulatory requirements for Security of Mobile Apps, which provide guidelines for banks to securely develop mobile apps.

Cyber Security Risk

The widespread use of technology and innovation in financial services is accompanied by the increase in the potential risks to cyber security of the financial institutions. According to The Global Risks Report, 2021 by World Economic Forum, cybersecurity failure ranks among the highest risks of the next ten years in terms of both likelihood and impact.

SBP has taken several policy and regulatory measures to protect itself, the financial market infrastructure, financial institutions and their customers from cyber threats.[26] These measures aim to improve overall governance arrangements in the institutions, strengthen their operational resilience, and promote a culture of collaboration and coordination in the industry to respond to cyber threats in real time.

To mitigate technology risks, SBP introduced Enterprise Technology Governance & Risk Management Framework in Financial Institutions in 2017, with a vision to provide baseline technology governance and risk management principles to financial institutions. Financial institutions are required to integrate this framework with their overall enterprise risk management regime to identify, measure, monitor and control technology risks. Keeping in view the growing significance of the cyber security risk which warrants a more concentrated supervisory approach, SBP has instituted a dedicated supervisory strategy for cyber security risks in FY22. This strategy proactively assesses the risks at both micro and macro level and takes corrective actions to address any deficiencies and supervisory concerns.

For the purpose of ensuring cyber resilience of its own information assets, SBP has a dedicated office of information security, which ensure a protection of network, infrastructure, and related IT systems of the Bank.

Climate Risk and Financial Stability

The risks due to climate change pose tremendous challenges to the world today both in terms of damages to infrastructure, lives and livelihoods (physical risks) and shifts to low-carbon and climate friendly economy (transition risks). Incidentally, Pakistan is the eighth most vulnerable country in terms of climate risk. The implications of climate change, however, embrace all spheres of human life including physical wellbeing as well as the economic and financial stability. Accordingly, SBP is alive to the issue and it has taken various measures over the years to both mitigate the attendant financial stability risks as well as to promote the green financing in the economy. For this purpose, SBP has already launched refinance scheme for renewable energy project and issued necessary guidelines and policies like SBP's Green Banking Guidelines (issued in 2017), to facilitate regulated institutions in adopting the sustainable business practices, promote sustainable green finance, and manage the climate-change risks.

Moreover, in case of any severe calamity, regulatory regime is duly adjusted to cope with associated economic challenges. As part of its regular resilience analysis of the banking sector, SBP assesses the ability of the banking sector to withstand severe macroeconomic shocks, including the physical damages in the event of severe weather events occurring due to climate change[27]. Moreover, banks are also required to carry out such analysis and incorporate the same in their annual capital planning and risk management processes. For this purpose, SBP has also issued necessary guidelines to assist banks in the scenario analysis.

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[26] SBP's regulatory regime on cybersecurity of banks is based on National Institute of Standards and Technology's (NIST) Cybersecurity Framework and BIS's *Guidance on cyber resilience for financial market infrastructure*.
[27] State Bank publishes the scenario analysis as a part of its annual financial stability report.

4 Measures to Support the Government's Economic Policies

The fiscal year 2022 was marked by a number of global and domestic economic challenges whose fast-paced and uncertain nature demanded sharper-than-usual vigilance and decision making to meet the Bank's primary objective of ensuring domestic price stability and secondary objective of contributing to the stability of the country's financial system.

Despite the weight of these challenges, in line with its tertiary objective, the Bank continued to support the government's economic policies, aimed at fostering economic development and better utilization of resources. In particular, the Bank continued to actively strive to promote financial inclusion, financial development and documentation of financial transactions in the country.

These objectives tie in closely with the implementation of monetary policy and maintaining a stable financial system in the country. For instance, deep and sufficiently liquid financial markets are necessary prerequisites for effective monetary policy implementation. In recognition of this, the SBP undertook a wide range of measures to increase financial inclusion; improve documentation of financial transactions; and enhanced financing to often neglected business segments, such as Small and Medium Enterprises (SMEs), Housing Finance and Agriculture.

However, achieving these policy objectives in a country of over 220 million people is a significant challenge. The SBP's policy response, therefore, prioritized the utilization of digital channels for both payments and financial inclusion. This aims to address inefficiencies in the domestic payments and account opening landscape which are a major hindrance in integrating a large portion of the population with the domestic financial system. The SBP updated regulations where necessary, and the government agreed to provide the necessary backstop (via subsidies and credit guarantees) for some financial and banking products. At the same time, banks were encouraged and, in some cases, required, to update their suite of products and given targets to meet by set timelines.

The key measures taken by the SBP to support the government's overall sustainable and inclusive growth objectives can be broadly categorized into three major areas: Financial Inclusion; Digitization of the payments landscape; and Overseas Pakistanis integration with the country's banking system. They are discussed in detail below.

4.1 Measures to Promote Financial Inclusion

Financial inclusion is considered as a key enabler for achieving inclusive economic growth and financial development. The policy objective is to improve the access and usage of quality financial services to individuals and firms, with dignity and fairness as being cornerstones of financial services delivery. Accordingly, the SBP has been driving financial inclusion as one of its strategic goals. In this regard, the SBP had already adopted a broader National Financial Inclusion Strategy (NFIS), with the specific headline target of reaching 65 million unique active bank accounts,[28] including 20 million active women-owned accounts, by December 2023. By June 2022, the unique active account ownership had increased to 63.8 million and SBP is now well on course to achieve the NFIS headline target by December 2023.

To achieve the overall financial inclusion targets, the SBP also set out a number of sector- and segment-specific guidelines and regulations for banks. These relate to: reducing gender disparity across the financial services landscape (from customers to share of women employees working in banks); increasing the share of Islamic banking; making housing finance (especially for the low income segment) an important part of banks' lending portfolios; facilitating traditionally

[28] This includes both branch-based and branchless banking accounts.

underserved business segments, such as SMEs and agriculture; and encouraging exports via traditional (mainly refinance scheme-based) as well as modern (i.e. digitization-centric) policy interventions.

(i) Banking on Equality

To reduce the gender gap in financial inclusion and make the banking industry more women-friendly, the SBP introduced *a Banking on Equality (BoE) Policy*. The policy has introduced a gender lens within the financial sector through five key pillars: under which actions are targeted towards improving institutional readiness, product diversification and development capability, customer acquisition and facilitation approaches towards women segments, robust collection of gender disaggregated data, and prioritizing gender focus in SBP's policies.

In terms of progress, all banks have started the implementation of the BoE Policy and have developed their Board-approved gender mainstreaming policies. Further, banks have developed their plans to improve ratio of women staff to at least 20 percent, which stood at 13.4 percent as of June 2022. Meanwhile, as of June 2022, 22 banks have developed-women centric products and services, and almost 17 banks have established dedicated women financial services departments/units. Further gender sensitivity trainings have been given to 12% of all bank staff, while women champions have been appointed at 24% of branches for facilitating women customers. In terms of headline targets of active account ownership, as of June 2022, there were 21.5 million active women-owned accounts against the target of 25.7 million active accounts for CY 2022.

(ii) Islamic Banking

The SBP realises the enormous potential offered by Islamic banking in achieving its policy objective of increasing financial inclusion. With this underlying objective, the central bank has undertaken a range of regulatory measures to smoothen the functioning of Shariah-compliant banking in the country. Some of these key initiatives during the review period are as under:

Implementation of strategic plan for promotion of Islamic banking

To strengthen the ongoing growth momentum in Islamic banking, the SBP accelerated the pace of implementation of the third five-year strategic plan 2021-2025 for the Islamic banking industry with headline target of 30 percent market share in assets and deposits of overall banking industry by 2025.

Shariah-compliant Lender of Last Resort (SC LOLR) and liquidity management solutions for Islamic Banking Institutions

The SBP introduced regulations for Lender of Last Resort (LOLR) facility, which also includes financing for Islamic banking institutions under Shariah-compliant mode.

Furthermore, considering the importance of liquidity management for Islamic banking industry, the SBP has introduced: i) Shariah-compliant mudarabah based open market operations (OMO-Injection); and ii) Shariah-compliant standing ceiling facility - mudarabah based financing facility (MFF). Besides, SBP also provided support to Government of Pakistan in issuing Ijarah Sukuk.

Adoption of AAOIFI Shariah Standards

The SBP has remained a key member of international standard setting bodies like Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and has been adopting Shariah standards after customizing the same in accordance with the local market. During the year, SBP adopted four more AAOIFI Shariah standards. With adoption of these four standards, the total number of AAOIFI Shariah standards adopted by SBP has reached twenty while work on five more standards is underway.

Awareness & Capacity Building Initiatives

To improve understanding of general public and other stakeholders about Islamic banking, SBP along with Islamic banking industry conducts awareness drive using multiple channels of communications including electronic and print media. The strong growth potential, digitalization and conversion of conventional branches into Islamic mode have created ever increasing demand for skilled human resources. SBP is actively engaged in capacity building of the all related stakeholders through various promotion and training programs for academia, Shariah scholars, and chambers of commerce, etc.

Facilitating Conversion of Conventional Banking Businesses into Islamic

SBP has actively facilitated and supported the conversion of conventional banking business into Islamic and also branch level conversion being undertaken by various banking institutions.

Additionally, the SBP is determined in handholding MFBs and DFIs to commence Islamic business operations. Accordingly, facilitation has been provided to a few such institutions which have shown interest.

(iii) Measures to Promote Agriculture Credit

The agriculture sector contributes 22.7 percent to the GDP, and employs approximately 37.4 percent of the country's workforce. Cognizant of its importance, SBP considers provision of adequate financing for agriculture a top policy priority. In this regard, and to support the government's agriculture-related policies, a number of initiatives have recently been undertaken by SBP to enable access to credit for small farmers. These measures are discussed below. As a result of these initiatives, agriculture credit disbursement increased to PKR 1,419 billion during FY22, compared to PKR 1,366 billion during FY21. Moreover, the outstanding agriculture credit has also recorded an encouraging YoY growth of over 10 percent, reaching PKR 691 billion by end June 2022.

Agriculture Credit Scoring Model

To enhance fairness and transparency in gauging the performance of agriculture lending financial institutions, SBP introduced the Agriculture Credit Scoring Model in FY22. The model evaluates the agriculture credit performance of banks/MFBs across a wide range of indicators including the credit disbursement, portfolio diversification across sub sectors and regions and provision of credit to small farmers amongst other factors. The model also provides an aggregate score for each bank, which is reflective of its overall performance. The detailed results are then shared with banks to identify and improve the areas of weakness, while the summary rankings of banks are also published on SBP Website to promote transparency and healthy competition.

Champion Bank Model

SBP introduced the Champion bank model in underserved regions of the country to meet agriculture credit demand sustainably and six banks were designated as Champion banks. These Champion banks are rallying the rest of the banks to implement the regional targets, develop specialized lending programs, launch awareness and promotion drives, and address the local challenges faced by farmers. As a result of this initiative, agriculture lending has witnessed improvement across all underserved regions of the country. These early results are promising and continued focus will yield results in the medium term.

Enhanced Agriculture Credit Limits

In order to enable farmers to avail adequate financing from banks to meet their agriculture input requirements, SBP enhanced the per acre indicative credit limits for agriculture financing by around 27 percent in February 2022 for both production and development loans of farm and non-farm sectors. The enhanced indicative credit limits are meant to serve as a guideline for provincial governments and banks to estimate and assess the credit requirements of agriculture borrowers while setting targets and sanctioning credit limits, respectively.

Electronic Warehouse Receipt Financing

Electronic Warehouse Receipt Financing (EWRF) enables farmers, traders and processors to avail financing from banks against physical commodities stored in accredited warehouses without the need for conventional collateral. To promote the adoption of this facility, SBP formally rolled-out EWRF for maize and rice crops in February 2022. Further, SBP created a high level EWRF Task Force comprising of 17 members from various stakeholders. This includes SECP, Pakistan Banks' Association, Pakistan Mercantile Exchange, Collateral Management Company, Ministry of National Food Security & Research (Federal Secretary), Government of Punjab (Secretary Agriculture) and selected banks under the chair of Governor SBP to monitor and strategically steer the implementation of the action plan. SBP allocated EWRF targets to banks for FY22.

Crop Loan Insurance Scheme

With the federal government bearing the cost of premium per crop per season for eligible borrowers, this recurring scheme aims to mitigate the risk of losses to the farming community due to natural calamities like excessive rain, hail-storm, frost, cyclone, floods, drought, crop diseases, infestation, etc. It is applicable and mandatory for agriculture production loans of Banks/MFBs for wheat, cotton, rice, sugarcane, and maize.

Livestock Insurance Scheme for Borrowers

The scheme provides insurance coverage for death of livestock due to disease, natural causes, accident, and natural calamities including floods, droughts, windstorms, and heavy rains etc. The federal government bears the cost of premium for eligible borrowers and the scheme is applicable for loans of Banks/MFBs extended for the purchase of cows, buffalos, and bulls. The scheme is specifically targeted to small livestock farmers for purchase of up to 10 animals.

Credit Guarantee for Small and Marginalized Farmers

The scheme offers small and marginalized farmers collateral-free financing through risk sharing, where banks share up to 50 percent of the loss. The farmers with up to 5 acres of land in canal-fed and 10 acres in rain-fed areas are eligible under the scheme. As of June 2022, the scheme has enabled credit disbursement of PKR 9.2 billion to around 149,000 farmers.

Farmers' Financial Literacy & Awareness

SBP launched a series of videos in national and regional languages about agriculture financing products and procedures to create awareness among farming communities across the country. The measure is aimed at improving the increasing agriculture financing in the country, which in turn can contribute to productivity growth in the sector.

(iv) Small and Medium Enterprises (SMEs)

The growth of SMEs is critical for the country as it contributes approximately 40 percent to GDP. To increase access to finance to SMEs and promote the sector's growth, the State Bank of Pakistan in collaboration with the government has taken multiple initiatives. As a result of these initiatives, the outstanding SME finance exhibited an increase of 10.8 percent (PKR 48 million) on year on year basis during FY22. Major initiatives of SBP for promotion of SME financing are as under:

Adoption of Unified SME Definition

SBP, in line with National SME Policy 2021, has adopted a unified national SME definition based on single criteria of annual sales turnover. Under this definition, Small Enterprise (SE) has been defined as an enterprise having annual sales turnover of upto PKR 150 million; whereas, Medium Enterprise (ME) has been defined as an enterprise having annual sales turnover of above PKR 150 million to PKR 800 million. Moreover, definitions of startup SE and startup ME have also been introduced; SEs and MEs upto 5 years old are considered as startups.

SBP and Government Supported Financing Schemes

SBP has been offering different refinancing schemes at a concessional end user rate ranging between 5 percent to 9 percent per annum (p.a.) to meet short term and long term business needs of SME sector. Key features of some popular schemes are as under:

SME Asaan Finance (SAAF) Scheme

The SBP in collaboration with Government of Pakistan (GoP) launched SME Assan Finance (SAAF) Scheme in August, 2021. SAAF is an innovative initiative to improve access to finance for SMEs. It is a refinance and credit guarantee facility aimed at enabling and assisting SMEs that are creditworthy but are still unable to access finance as they cannot offer the security required as collateral by banks. The Shariah-compliant version of this scheme is also available.

All types of loans (working capital as well as term loans) are available under SAAF scheme and the loans may be secured against personal guarantees of the borrowers. The maximum financing limit under the scheme is PKR 10 million. Under the scheme, SBP is providing refinance for three years to selected banks, and the Government of Pakistan provides risk coverage of upto 60 percent against losses depending on the size of the loans. The total outstanding amount as of June 30, 2022 was PKR 13.8 billion.

Refinance Facility for Modernization of SMEs

Under the facility, medium to long-term financing is available to SMEs to modernize their existing units or set up new units, the financing is available for both local purchase and import of new machinery. The scheme is available for wide range of SME clusters and sectors. The financing limit for Small Enterprises is PKR 25 million, and for Medium Enterprises is PKR 200 million. The scheme is also offered in Shariah-compliant version.

Refinance and Credit Guarantee Scheme for Women Entrepreneurs

The scheme was launched to promote access to finance for women entrepreneurs across the country. Under the scheme, the maximum financing of PKR 5 million is available with a tenor of 5 years, including a grace period of up to 6 months. The Shariah-compliant version of this scheme is also available.

Refinance Scheme for Working Capital Financing of Small Enterprises & Low-End Medium Enterprises

Under this scheme, the maximum financing limit for Small Enterprises is PKR 25 million, and for low-end Medium Enterprises, with annual sales turnover of Rs. 300 million, the maximum financing limit is PKR 50 million. This scheme is specifically targeted to SME sectors namely; information technology, furniture, surgical goods, dates processing, gems and jewelry, leather industry, fruits, vegetables and food processing & packaging and printing & packaging. The maximum tenor is one year, and Shariah-compliant version of this scheme is also available.

Prime Minister Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES)

Launched by the government and supported by SBP with moral suasion, this scheme targets all Pakistani youth aged between 21 and 45 years (the lower limit for IT/E-Commerce-related businesses is 18 years). Financing is available for long-term loans, working capital loans including murabaha and leasing/financing of locally manufactured vehicles (one vehicle per borrower) for commercial use. Under PMKJ-YES, financing is segregated into three tiers ranging between PKR 0.1 million to PKR 25 million. The total outstanding amount as of June 2022 grew to PKR 45.4 billion from PKR 14.1 billion in June 2021, showing a growth rate of 222 percent.

Financing Facility for Storage of Agriculture Produce

Under the facility, financing is available for the establishment, expansion and balancing, modernization and replacement (BMR) of steel/metal/concrete Silos, warehouses & cold storage facilities for storing agricultural produce.

Challenge Fund for SMEs (CFS)

The SBP, under World Bank Financial Inclusion and Infrastructure Project (FIIP) launched a Challenge Fund for SMEs (CFS) in March 2022 to support innovative solutions for SME banking in the country. This fund in the form of grant will facilitate banks in developing innovative technological solutions to cater the banking needs of SME sector. The scope of the fund includes increasing SMEs' access to finance through development of SME banking solutions, digital payment solutions for SMEs, digitizing loan applications and credit management system. The funds under the CFS are being awarded to seven banks selected through a competitive process.

(v) Housing Finance

Construction and housing sector plays an important role in reviving economic activity in the country. With its forward and backward linkages to a large number of allied industries, construction and housing has potential of creating jobs and uplifting standard of living. In order to persuade banks to give due focus to housing finance, State Bank of Pakistan issued separate prudential regulations for housing finance. Following are the major steps, SBP has taken in recent past to promote housing and construction finance in the country.

Mandatory Targets to Banks to Increase Housing & Construction Finance

In order to promote the housing and construction of buildings (residential and non-residential) in the country, as envisaged by the Government of Pakistan, SBP has assigned mandatory targets to banks to extend mortgage loans and financing for developers and builders. Banks will be required to increase their housing and construction finance to at least 7 percent of their domestic private sector advances by end December 2022. However, keeping in view the macroeconomic vulnerabilities, SBP has converted mandatory targets into indicative targets. Further, time to meet target of housing and construction finance as 7 percent of domestic private sector advances has been extended to June 30, 2023 from December 31, 2022. As of June 30, 2022, outstanding housing and construction finance of banks was PKR 451 billion.

Mark-up Subsidy Scheme for Housing

In line with its vision of providing affordable housing to masses, Government of Pakistan has announced mark-up subsidy facility commonly known as Mera Pakistan Mera Ghar (MPMG) for the construction and purchase of new houses.[29] This facility allows individuals, who are constructing or buying a new house for the first time, to avail bank's financing at subsidized and affordable mark-up rates.

As of June 30, 2022, banks have received application of Rs 514 billion and approved Rs 236 billion. Banks have disbursed Rs 100 billion under MPMG.

The SBP took a host of measures to create an enabling regulatory environment for banks to extend financing under MPMG, some of the major initiatives are discussed below:

- Banks/DFIs allowed to extend low-cost housing finance against personal guarantee of a third party for a maximum period of one year.
- Standardization and simplification of housing finance approval and disbursement procedures of banks.
- Banks have been advised to provide manual/e-tracking facility on status of loan applications to their customers.
- Banks have also been advised to reduce the turnaround time of customers' loan application under MPMG to 30 days or less

Guidelines to Promote Housing Finance in Under Construction Projects

The banks were reluctant to finance housing units in under construction project, which limited the buyers to purchase completed housing units only. To resolve this issue, SBP issued new guidelines that provide a framework with necessary risk mitigation elements for the banks to support this area of housing finance.

[29] The government is in the process of revising terms and conditions of the MPMG scheme. Some of these changes were announced in July 2022 (https://www.sbp.org.pk/smefd/circulars/2022/CL10.htm).

(vi) Facilitation for Exports

The SBP supports exports and industrial growth with the ultimate objective of promoting the country's overall economic development through multiple measures including refinance facilities. Over the years, the Bank has introduced special schemes under its refinance window to ensure an adequate supply of financing to the value-added industries at competitive rates for enhancing their production capacity and meeting working capital requirements. These schemes mainly include Export Finance Scheme (EFS) to ensure short-term credit availability for exporters and the Long Term Financing Facility (LTFF) for encouraging export-led growth on a long-term basis.

Export Finance Scheme (EFS)

The EFS is operational since 1973. It is a short-term financing facility for value-added goods with a loan tenure of up to 180 days. In FY22, to facilitate banks and exporters, the SBP digitized the process of obtaining refinance from SBP by banks under the EFS. The measure is expected to improve operational efficiency and ease of business. Additionally, to help exporters meet their working capital needs, the SBP has introduced a new facility of Rupee-based discounting under EFS in February 2022. Under this facility, exporters can obtain financing against their export proceeds by discounting export bills/receivables. This will also incentivize the exporters to bring in their proceeds on time, which will improve foreign exchange inflows in the interbank market. During the year, mark up rate on EFS was increased in accordance with the SBP's decisions to raise policy rate amidst other changes to macro-prudential measures to moderate demand. A Shariah-compliant mode of EFS, Islamic Export Refinance Scheme (IERS), is also available.

The total outstanding amount under EFS including IERS and Rupee-based discounting facility stood at PKR 775.2 billion as of June 2022, compared to PKR 564.8 billion as of June 2021 with a growth of 37.2 percent.

Long Term Financing Facility (LTFF) for Plant & Machinery

Under the LTFF scheme, financing is available for export-oriented projects to purchase imported and locally manufactured new plants and machinery with a per-project limit of up to PKR 5 billion. Similar to the EFS, during the year, the mark up rate on LTFF was increased in accordance with the SBP's decisions to raise policy rate amidst other changes to macro-prudential measures to moderate demand. The total outstanding amount as of June 2022 was PKR 329 billion in comparison to PKR 253 billion in June 2021, reflecting a growth of 30 percent.

Shariah-compliant LTFF is also available through IBIs, with financing on a Mudaraba basis between SBP and IBIs. The total outstanding amount grew by 83.3 percent in FY22 to PKR 66 billion as of June 2022 from PKR 36 billion as of June 2021.

Temporary Economic Refinance Facility (TERF)

The exporters also benefitted from Temporary Economic Refinance Facility (TERF), launched by the SBP in FY20 to support sustainable economic growth, especially in the backdrop of challenges being faced by the industry in the post-pandemic scenario. The facility was available for all sectors except power sector, aimed at stimulating long term investment in both new projects, expansion and/or Balancing, Modernization and Replacement (BMR). Although the facility matured on March 31, 2021, the disbursements of approved loans under TERF continued in FY22._Total disbursement as of June 30, 2022 stood at PKR 339.8 billion, compared to disbursement of PKR 132 billion as of June 2021.

4.2 Digitalization of Financial Services

During FY22, the SBP took various steps to improve digitization of the country's financial sector landscape, both in terms of digitalization of transactions and in terms of opening of accounts to promote financial inclusion in the country. In addition, the bank took policy initiatives to increase the outreach of the financial sector to wider unbanked sections of the country's population. These measures are enlisted below.

(i) Licensing and Regulatory Framework for Digital Banks

The SBP developed a licensing and regulatory framework for setting up digital banks in Pakistan. A digital bank is defined as a completely digital entity that will provide all types of banking services and operations, from account opening to deposit and lending, through digital means without the need for customers to physically visit any bank branch. The framework mainly aims to enhance financial inclusion through affordable and cost effective digital financial services, and allows both new entities or traditional banks to set up digital banks as a separate and distinct category in Pakistan. In line with global best practices and in consideration of state of overall banking and economic environment of the country, the SBP has decided to initially issue up to five digital banks' licenses. It has invited applications for the same, and the selection process for those licenses is currently underway.

(ii) Launch of Instant Payment System – Raast

SBP launched Raast as a state-of-the-art Instant Payment System to provide a cheap and universal access to people of Pakistan especially those who are financially excluded and less privileged. The launch of this initiative paves way for the foundation of digitization of the economy and promotion of digital financial services. Raast will provide digital, easy-to-use, efficient and cost effective payment options to people of Pakistan and expected to be a catalyst for providing sustainable opportunities to small businesses and individuals. Raast aims to help government resolve current inefficiencies in various types of payments such as salary and pension and further improve social disbursements. In the first phase of Raast, SBP launched the bulk payment module in January 2021, which facilitates the e-dividend payments of customers and corporates. In the 2nd phase, Person-to-Person (P2P) payments were formally launched in February 2022, to allow every individual in the country to make his or her payments digitally in a simple, fast, free and secure manner. Users for P2P payments can send and receive funds in their accounts using their bank's mobile application, internet banking or over-the-counter services without paying any cost. This will greatly facilitate people in receiving their funds instantly just like cash. As of Jun-22, 19 million unique Raast IDs have been registered with 8.0 million transactions amounting to PKR 118.4 billion have been transacted. In the next phase, SBP is going to introduce Person-to-Merchant functionality allowing merchants of all kinds and sizes to generate Requests-to-Pay for their customers.

(iii) Asaan Mobile Account (AMA)

To further enhance branchless banking and reach low-income segment that do not have internet access, the SBP launched AMA initiative in December 2021. This allows the customers to open and operate their accounts with any of the participating branchless banking providers without having to visit the branches and without having smart phones or internet. As of June 30, 2022, 3.38 million accounts were opened/linked.

(iv) Unified QR Code

In order to accelerate the digitization of retail payments, the SBP prepared and issued standards for Quick Response (QR) code-based payments in Pakistan. These standards are to be met for giving QR codes and accepting payments through the same. The initiative is part of SBP's drive to promote inclusion and modernization of payment systems in the country, and in turn improve documentation of business and commercial transactions in the country. Two standards of the QR code have been issued: (a) for person to person (P2P) payments, and (b) other for person to merchant (P2M) payments. The P2P standard would be used by banks and financial institutions to generate personalized QR codes for their customers, using which they would be able to receive payments on their mobile apps. Likewise, the P2M would be used for accepting and processing merchant based payments, using mobile apps, on lines similar to card based payment acceptance.

(v) Customers' Digital Onboarding Framework

To allow remote opening of bank accounts by using digital channels, the SBP devised a "Customers' Digital Onboarding Framework." The framework provides a convenient avenue for all, especially women, freelancers, self-employed, and foreign remittance recipients, to open digital accounts with minimum document requirements.

(vi) Digitization of Corporate Payments

In order to improve digitization of commercial transactions, the SBP made it mandatory for banks, microfinance banks, payment system operators, and payment system providers, to provide digital means of payments to their corporate clients.

(vii) End-to-End Digitalization of FX Cases

To enhance the ease of doing business by providing a digitalized platform to the business community and individuals for their foreign exchange-related requests to the SBP, the SBP initiated the project of 'End-to-End Digitalization of FX Cases.' In the first phase, banks were connected with the SBP FX Regulatory Approval System (RAS), which enabled them to submit FX-related cases electronically for regulatory approval of SBP and SBP-Banking Services Corporation (BSC). In the second phase, the facilitation was extended to the business community. The banks developed portals to receive FX cases from their clients for processing digitally. The measure is expected to improve ease of doing business as the digitalization is expected to benefit business firms and individuals by reducing the transaction times, and thereby enhance efficiency.

(viii) Improving Payment Card Acceptance in the Country

Acceptance of payment cards in the country has been stagnated for a number of years due to the fact the card acquiring services have largely been a loss-making business. However, SBP intervened through regulatory instructions on Improving Payment Card Acceptance, and corrected market anomalies. As a result of SBP intervention, card acceptance infrastructure has reached a historical high of 104,865 in Jun-2022 from 71,907 in Jun-2021.

(ix) Improving Security and Trust in Digital Financial Services

Over the past few years, SBP has issued different regulations to standardize security requirements of various digital financial products/services such as for payment cards, internet banking and enterprise security. Recently, SBP has also issued common standard and regulatory requirements for Security of Mobile Apps. The requirements provide guidelines for banks to securely develop mobile apps and ensure that customer security and trust in digital financial services is enhanced.

(x) Service Charges on Donations/ Payments to Prime Minister's Flood Relief Fund 2022

In order to support Government of Pakistan's flood donations drive, SBP issued instructions to all banks to not charge any transaction related charges like Interchange Reimbursement Fee (IRF), Merchant Discount Rate (MDR), Merchant ID Fee, Scheme Fee, Inter Bank Fund Transfer (IBFT) Fee, or any other payment related fee that may be applicable on transactions made for donations / payments to Prime Minister Relief Fund 2022.

(xi) Removing Barriers to Entry for Non-Bank Electronic Money Institutions (EMIs)

One of the reasons for high level of financial exclusion is banks' inability to innovate and having limited reach. One the other hand, technology has proven to solve the access issue by using the smart gadgets such as mobile phones. Therefore, SBP enabled fintechs to offer innovative digital payment services in Pakistan. To this end SBP has issued the regulations for Electronic Money Institutions (EMIs) in 2019. SBP has fast tracked the licensing process of Electronic Money Institutions (EMIs) and till date Eleven (11) licenses have been issued to various applicants out of which four (04) have started live operations and rest are in different phases of their readiness to start operations.

4.3 Reforms in Foreign Exchange Regulatory Framework

i) International Trade

SBP has taken various measures to facilitate e-commerce, foreign trade and exports. These measures will not only improve foreign exchange flows into the country but also enhance the ease of doing business in Pakistan. Some of the major initiatives include (i) implementation of Pakistan Single Window (PSW) project for developing Electronic Data interchange with Banks, and (ii) introduction of a new framework of Business–to-Business-to-Consumer (B2B2C) e-commerce.

Under the PSW project, regulations were amended to ease documentation requirements, particularly the elimination of the Electronic Form-E requirement at the time of exports. A similar change was made to facilitate import transactions through the PSW facilities, by eliminating the requirement for the Electronic Import Form. Similarly, amendments were also aimed at facilitating exporters, particularly SMEs, to sell their products through international digital marketplaces including Amazon, e-Bay, Alibaba under B2B2C e-commerce model. These revisions were part of the phase-wise approach to revise forex regulations in line with changing business environment and market dynamics.

ii) Commercial Remittances

SBP, over time, has eased restrictions on commercial remittances, by streamlining the process of making these remittances with an objective to improve the Ease of Doing Business in the country. The measures include (i) remittance of Royalty, Franchise and Technical Fee (RFT) have been modified as per current business environment, (ii) detailed regulations on Business Processes Outsourcing for non-core activities have been introduced, and (iii) general permission to remit funds collected (in PKR) by foreign embassies/consulates in Pakistan.

iii) Exchange Companies (ECs)

SBP has introduced various regulatory measures to enhance transparency and to discourage speculative buying from ECs while serving the genuine needs of the public. Some of the main regulatory measures include introduction of daily and annual limits for purchase/remit foreign currency from ECs by individuals. Use of banking channels have also been promoted for such transactions. Further, ECs have also been incentivized to promote home remittances and provide liquidity to the interbank market.

4.4 Facilitation of Overseas Pakistanis

The State Bank of Pakistan has taken number of initiatives for the benefit of Pakistanis living abroad. The bank, in collaboration with commercial banks operating in Pakistan, introduced the Roshan Digital Account to provide innovative banking solutions for millions of Non-Resident Pakistanis (NRPs), including Non-Resident Pakistan Origin Card (POC) holders, seeking to undertake banking, payment, and investment activities in Pakistan. Also, the SBP, Ministry of Finance, and financial institutions launched Sohni Dharti Remittance Program (SDRP)to improve remittance inflow through formal official channels.

(i) Roshan Digital Accounts for Overseas Pakistanis

The SBP enabled Non-Resident Pakistanis (NRPs) to connect to country's banking and payment channel through the launch of Roshan Digital Account (RDA) scheme. RDA enables NRPs to open account digitally in 48 hours without lengthy documentation whereas it also enables NRPs to operate account digitally through internet banking and mobile applications. As of Jun-22, the number of RDAs increased to 429,364 from 181,556 in Jun-21. The funds received in these accounts also increased to approximately $4.6 billion in Jun-22 from $1.56 billion in Jun-21. SBP over the period of time has built attractive product offerings around RDA such as Naya Pakistan Certificates (NPCs), Roshan Apni Car (RAC), Roshan Apna Ghar (RApG), Roshan Samaaji Khidmat (RSK), and Roshan Equity Investments. These product offerings have seen encouraging uptake by NRPs.

(ii) Naya Pakistan Certificate (NPC)

NPCs are foreign (USD, Euro, GBP) and local currency denominated sovereign instruments offered digitally by Government of Pakistan under NPC Rules 2020 framed under Public Debt Act. They offer attractive risk-adjusted returns over different maturities and are available in both conventional and Shariah compliant versions. Both the non-resident Pakistanis and resident Pakistanis who have declared their assets abroad can invest in NPCs. As of Jun-22, total investment in NPCs increased to approximately $3.0 billion from $2.1 billion in Jun-21.

(iii) Sohni Dharti Remittance Program (SDRP)

To further incentivize and facilitate overseas Pakistani workers to send remittances through banks and exchange companies, the SBP, Ministry of Finance and financial institutions jointly launched SDRP in November 2021. SDRP is a loyalty scheme accessible by mobile application and rewards the remitters with points; the reward points are proportionate to the size of annual remittance. These points could then be used to avail different benefits offered by partner public sector organizations including Pakistan International Airlines and Federal Board of Revenue. The initiative is expected to improve inflow of remittances through official channels.

4.5 Measure for Promoting Renewable Energy

Pakistan's economy is facing the dual challenge of energy shortage and climate change. In order to support in overcoming these challenges, SBP provides refinancing scheme focused on renewable energy.

The scheme is available under the following three categories:

i) Category I: Financing is allowed for the setting up of renewable energy power projects with capacity ranging from 1 MW to 50 MW for own use or selling electricity to the national grid or a combination of both.

ii) Category II: Financing is allowed to domestic, agriculture, commercial, and industrial borrowers for installing renewable energy-based projects of up to 1 MW to generate electricity for use or sell to the grid/distribution company under net metering.

iii) Category III: Financing is allowed to vendors/suppliers/energy sale companies for the installation of wind and solar systems/solutions of up to 5 MW.

In FY22, the SBP eased the conditions for renewable energy solution providers under this refinance scheme by allowing all Renewable Energy Investment Entities (RE-IEs) interested in installing renewable energy projects to avail refinancing under category III of the scheme.

Since the inception of the scheme, 2,006 projects, having potential of adding 1,601 MW of energy supply through renewable sources, have been financed. As of June 30, 2021, total outstanding financing under the Scheme was PKR 53 billion, which reached to Rs. 88.2 billion as of June 30, 2022. While there is substantial take up under Category I & II, solution suppliers under Category III faced problems

Accordingly, in light of the feedback from relevant stakeholders including renewable energy solution suppliers, the requirement of Alternative Energy Development Board (AEDB) certification has been relaxed for RE-IEs who do not undertake installations on their own but hire the services of installers/vendors for the installation of RE projects/solutions. However, vendors/suppliers/EPC contractors of these RE-IEs will still be required to be certified under AEDB certification regulations. Moreover, in addition to Category I & II, Banks/DFIs have also been allowed to make advance payment under Category III (i.e. RE-IEs) up to the extent of 20 percent of C&F value/ ex-factory price from the financing availed under the scheme in terms of related underlying agreement.

Shariah-compliant version of the renewable energy scheme .i.e. Islamic financing facility for renewable energy is also available through IBIs.

List of Acronyms

A

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ADR	Advances to Deposits
AEDB	Alternative Energy Development Board
AM	Asset Management
AMA	Assaan Mobile Account
AMA	Asaan Mobile Account
AMC	Asset Management Company
AML	Anti-Money Laundering
ATM	Automated Teller Machine

B

B2B2C	Business–to-Business-to-Consumer
bbl	Barrel
BCO	The Banking Companies Ordinance 1962
BIS	Bank for International Settlement
bps	basis points
BSC	Banking Services Corporation
BSS	Banking Sector Stability
BSSM	Banking Sector Stability Map

C

CAD	Current Account Deficit
CAMELS	Capital Adequacy, Assets Quality, Management's Quality, Earnings, Liquidity and Effectiveness of Systems and Controls
CAR	Capital Adequacy Ratio
CB	Central Bank
CDC	Central Depository Company
CDNS	Central Directorate of National Savings
CDS	Credit Default Swap
CFS	Challenge Fund for SMEs
CFT	Combating Financing of Terrorism
CMR	Cash Margin Requirement
Co	Company
COVID	Coronavirus disease
Covid-19	Coronavirus Disease 2019
CP	Commercial Paper
CPF	Countering Proliferation Financing
CPI	Consumer Price Index
CRR	Cash Reserve Requirement
CY	Calendar year

D

DFI	Development Finance Institution
DFS	Digital Financial Services
DPC	Deposit Protection Corporation
DSSI	Debt Service Suspension Initiative

E

E-Banking	Electronic Banking
EC	Exchange Company
E-Commerce	Electronic Commerce
EFS	Export Finance Scheme
EM	Emerging Market
EME	Emerging Market Economy
EMI	Electronic Money Institutions
EU	European Union
EWMA	Exponential Weighted Moving Average
EWRF	Electronic Warehouse Receipt Financing

F

FATF	Financial Actions Task Force
FCA	Fuel Cost Adjustment
FDI	Foreign Direct Investment
FDR	Financing to Deposit Ratio
Fed	Federal Reserves
FI	Financial Institutions
FMI	Financial Markets Infrastructure
FMSI	Financial Markets Stress Index
FMU	Financial Monitoring Unit
FSI	Financial Soundness Indicator
FX	Foreign Exchange
FY	Fiscal Year

G

GBP	British pound sterling
GDP	Gross Domestic Product
GST	General Sales Tax

H

H1	First Half
H2	Second Half

I

IA	Investment Advisor
IB	Investment Bank
IBFT	Inter Bank Fund Transfer

	IBI	Islamic Banking Institution
	IERS	Islamic Export Refinance Scheme
	IFC	Investment Finance Company
	IMF	International Monetary Fund
	IT	Information Technology
	IVR	Interactive Voice Response
K		
	KSE 100 Index	Karachi Stock Exchange – 100 Index
L		
	LC	Lender of Last Resort
	LCR	Liquidity Coverage Ratio
	LOLR	Lender of Last Resort
	LSM	Large Scale Manufacturing
	LTFF	Long Term Financing Facility
	LVPS	Large Value Payment System
M		
	ME	Medium Enterprise
	MFB	Microfinance Bank
	MFI	Microfinance Institution
	ML	Money Laundering
	ML/ TF/ PF	Money Laundering/ Terrorism Financing / Proliferation Financing
	MoF	Ministry of Finance
	MPC	Monetary Policy Committee
	MPMG	Mera Pakistan Mera Ghar
	MW	Megawatts
N		
	NBFI	Non-Bank Financial Institution
	NBMFC	Non-Bank Microfinance Company
	NCCPL	National Clearing Company of Pakistan Limited
	NCPI	National Consumer Price Index
	NFIS	National Financial Inclusion Strategy
	NFNE	Non-Food Non-Energy
	NIFT	National Institutional Facilitation Technologies (Private) Limited
	NII	Net Interest Income
	NIM	Net Interest Margin
	NIST	National Institute of Standard Technology
	NPC	Naya Pakistan Certificate
	NPF	Non-Performing Financing
	NPL	Non-Performing Loan
	NPLR	Non-Performing Loan Ratio

	NRP	Non-Resident Pakistani
	NSFR	Net Stable Funding Ratio
O		
	OMO	Open Market Operation
	ORR	Obligor Risk Rating
P		
	P2M	Person to Merchant
	P2P	Person to Person
	PACRA	Pakistan Credit Rating Agency
	PBS	Pakistan Bureau of Statistics
	PDL	Petroleum Development Levy
	PF	Proliferation Financing
	PKR	Pakistani Rupee
	PMKJ-YES	Prime Minister Kamyab Jawan Youth Entrepreneurship Scheme
	POL	Petroleum, Oil, and Lubricants
	POS	Point of Sale
	PR	Prudential Regulation
	PRISM	Pakistan Real Time Interbank Settlement Mechanism
	PSEFT	The Payment Systems and Electronic Funds Transfer Act, 2007
	PSW	Pakistan Single Window
	PSX	Pakistan Stock Exchange Limited
Q		
	Q1	First Quarter
	Q2	Second Quarter
	Q3	Third Quarter
	Q4	Fourth Quarter
	QR	Quick Response
R		
	Raast	Pakistan's First Instant Payment System
	RAS	Regulatory Approval System
	RBS	Risk Based Supervision
	RDA	Roshan Digital Account
	RE-IE	Renewable Energy Investment Entities
	REIT	Real Estate Investment Trust
	REITs	Real Estate Investment Trusts
	ROA	Return on Assets
	ROE	Return on Equity
	RTOB	Real Time Online Branch
	RVPS	Retail Value Payment System
	RWA	Risk Weighted Assets

S

S0	Baseline Scenario
S1	Scenario 1
SAAF	SME Asaan Finance
SBP	State Bank of Pakistan
SDR	Special Drawing Rights
SDRP	Sohni Dharti Remittance Program
SE	Small Enterprise
SECP	Securities & Exchange Commission of Pakistan
SLR	Statutory Liquidity Requirement
SME	Small and Medium Enterprise
SMEs	Small and Medium Enterprises
SSA	Separate Supervising Agency

T

TERF	Temporary Economic Refinance Facility
TF	Terrorism Financing
TFC	Term Finance Certificate

U

UK	United Kingdom
US	United States of America
US Fed	Federal Reserve System, central bank of the United States of America
US$	US Dollar
USD/US$	United States Dollar

V

VIS	VIS Credit Rating Company Limited

Y

YoY	Year on Year