Governor's Review

I am pleased to present the SBP Performance Review for FY20, during which the economy and financial sector faced challenges due to the need to address unsustainable past macroeconomic imbalances and, later, the COVID-19 pandemic. Despite numerous challenges during FY20, the Pakistan's economy performed relatively better, particularly on the external and fiscal fronts. During the first half of the year, the policy focus remained at stabilizing the economy and building adequate buffers. The country also witnessed a smooth transition to a market-determined flexible exchange rate regime and a prohibition of government borrowing from SBP. The second half witnessed proactive and timely policy measures to counter the emerging risks due to COVID-19 pandemic.

The successful implementation of deep-rooted fiscal and monetary structural reforms in the first half of the fiscal year facilitated rolling out of unprecedented policy support measures to combat the COVID-19 shock. SBP adopted a proactive approach in assessing the evolving COVID-19 related situation around the globe and within the country, enabling it to identify the issues in a timely manner and implement policy prescription necessary for ensuring continuous provision of financial services while limiting the impact of the pandemic. Besides lowering the borrowing cost through aggressive monetary easing, SBP introduced targeted schemes to support employment, health sector and investments in new/existing projects to stimulate the economy. These included, introduction of new refinance schemes to prevent businesses from laying off workers (the Rozgar Scheme), encouragement of investment activities through Temporary Economic Refinance Facility (TERF) and providing support to eligible hospitals (Refinance Facility for Combating COVID-19), in addition to enhancing the scope and coverage of the existing concessional refinance schemes.

SBP complemented these initiatives with a broad range of macroprudential measures to facilitate the financial sector in supporting the real sector of the economy, preserve the solvency of the borrowers and enhance the loss absorption capacity of banks. The host measures include reduction in Capital Conservation Buffer, launching of a comprehensive package to facilitate the borrowers in restructuring or deferment of principal amount of their loans, decrease in the debt burden ratio for consumer finance and relaxation of margin requirement for exposure against shares of listed companies. The policy initiatives and support measures are estimated to have provided a stimulus of around Rs.1.6 trillion or 3.9 percent of GDP.

Ensuring availability and continuity of financial services remained the other key focus of SBP for alleviating the stress driven by the pandemic and keeping confidence of the customers in the banking system. SBP issued various guidelines to promote use of digital payments channels by banks' customers so as to limit branch visits and ensure social distancing. SBP advised banks to waive charges on online fund transfer services to limit the physical contact of customers at branches, promote the use of Alternate Delivery Channels (ADCs) e.g. ATMs, online banking, phone banking etc., ensure availability of 24/7 ADC-related customer support, enable digital collection of all challans/ invoice-based payments such as education fee, offer loan repayments facility through digital channels, among other measures. SBP also ensured that sufficient fresh or disinfected cash is supplied to the banks to prevent the spread of the disease.

More specifically and despite the pandemic, in FY20, the country's external accounts improved markedly due to effective monetary and exchange rate policies along with fiscal consolidation. Of key note is a successful transition of the exchange rate system to a flexible market-based system which helped tame the current account deficit while the average annual inflation in FY20 on the basis of the new-base was 10.7 percent, slightly below SBP's projection of 11-12 percent at the start of the year. SBP's FX reserves also registered strong growth during FY20 with an annual increase of USD 4.8 billion whereas remittances increased to a record high at USD 23.12 billion, despite the unprecedented global dislocation caused by the COVID-19 pandemic. The increase in SBP's gross reserves was attained not due to higher net external borrowing of the government but instead due to the reserve building operations of the SBP during the first nine months of the fiscal year before the impact of COVID-19 struck.

Similarly, financial stability remained a key priority area for SBP in the backdrop of COVID-19. Significant measures taken during FY20 included enhancement in the macro stress-testing regime surveys, assessment of risks emanating from COVID-19 and revision of stress testing guidelines. In order to strengthen the regulatory framework, SBP augmented its supervisory scope by including new areas including assessment of corporate governance, cyber security and compliance with the AML/CFT regime.

To comply with international standards and requirements under FATF, SBP further strengthened the AML/CFT regime in Pakistan. SBP has also taken a number of initiatives to promote digital payments and encourage stakeholders to adopt new technological advancements, which are especially important in light of the COVID-19 pandemic. In addition, a comprehensive National Payment Systems Strategy (NPSS) was launched in coordination with the World Bank's Financial Inclusion Support Framework (FISF) program. SBP in consultation with stakeholders waived all charges on fund transfer transactions conducted through online channels during the lockdown period due to COVID-19.

To enhance financial inclusion in these unprecedented times, SBP took several steps. First, 800 new branch licenses were issued to commercial banks/ microfinance banks during FY20. Twenty-three percent of the licenses were issued for branches in rural, underserved and unbanked areas. Similarly, special focus remained on the priority areas of Balochistan, Khyber Pakhtunkhwa, AJK and Gilgit Baltistan for which 164 new branches were approved during FY20. Growth in the key indicators of Branchless Banking was also encouraging, which will help pave the way for adoption of digital channels and use of banking services in the country. The Islamic Banking Industry also witnessed significant growth during FY20. The assets and deposits of Islamic Banking Industry grew by 21.4 percent and 22 percent respectively, which is an encouraging sign for financial inclusion. Similarly, Microfinance Banks' assets base crossed Rs.400 billion from Rs.350 billion recorded in the previous corresponding period.

Second, SBP took various regulatory measures to promote digital payments during the COVID-19 pandemic including strengthening the legal and oversight framework of payment systems, digital onboarding of merchants, facilitation regarding paper-based clearing operations, standardization of QR Codes, improving payments card acceptance in Pakistan, enhancing cyber resilience and improving the Large Value Payment and Settlement System.

Third, during FY20, Prime Minister's Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES) was launched to enable youth to avail affordable financing for starting up new business or strengthening their existing business. The scheme will also promote entrepreneurship and reduce unemployment in the country.

Fourth, with a view to promote long-term finance, SBP also issued instructions for targets of financing for banks to extend mortgage loans and financing for developers and builders to promote housing and construction activities in the country, as envisioned by the Government of Pakistan (GoP). Banks would be required to increase their housing and construction of building loan portfolios to at least 5 percent of their private sector credit by the end of December 2021.

Looking inward to its strategic plan, SBP continued to focus on the efficacy of its activities and operations. To strengthen its organizational efficiency, SBP has taken several initiatives for business process re-engineering, cyber risk management, rationalization of workforce, capacity building, talent resourcing and information technology. SBP is also making strides in terms of gender diversity, with its workforce consisting of 11 percent of female employees in diverse roles at each level of hierarchy against the national requirement of 10 percent.

Lastly, I would like to express my gratitude to the SBP Board for their unwavering support which has enabled us to meet significant strategic milestones. I also extend my appreciation to SBP staff for their continuous efforts and dedication in helping the institution achieve its strategic goals.

Dr. Reza Baqir
Governor

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