

economicletter

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Pakistan

According to SBP's "Financial Stability Review", 2015, the sector remained in a stable state at end – calendar year (CY) 2015. Some of the relatively more aspects of the Review are noted below:

- asset base of the financial sector increased by 15 % during CY 15, with an average of 12.6 % during CY 13 – CY 15;
- financial depth has increased as the financial assets to GDP ratio increased to 68.4 % in CY 15 from 59.4 % in CY 14 and 56.4 % in CY 13;
- inflation stands contained with foreign exchange reserves rising steadily and firmly as a consequence of which exchange rate is stable;
- greater private sector credit off-take is resulting in higher manufacturing sector total output;
- the performance of the banking sector with major share in the financial sector improved on the back of record earnings and high capital adequacy ratio;
- the banking sector recorded a growth of 16.8 % in CY15 over CY14 averaging 13.2 % during CY13-15 to reach Rs. 14.1 trillion by end-December 2015;
- advances registered a growth averaging 8.7 % during CY13- 15.
- investments, mostly in government securities, grew by an average pace of 8.7 % during CY13-15.
- the asset base mostly financed by deposits grew by an average of 12.5 % during CY13-15.
- the asset base quality improved as the infection ratio progressively fell to 11.4 % in CY15 compared to 13.3 % in CY 2013;
- capital adequacy ratio rose to 17.4 % in CY15 against 14.9 % in CY13;
- Islamic banking share in total banking increased to 11.4 % in CY15 against 9.6 % in CY13.

The SBP has come to conclude that stability of some banks may be undermined given their exposure to the textile sector which has been under – performing lately. The sector's infection ratio – the difference between non – performing loans to total loan portfolio – is fairly high in respect of some banks.

According to Ministry of Finance, the country has received \$ 6.23 bn, or 68 % of the budgeted amount, during July – May 2015 – 16 by way of loans and grants from international lenders compared to \$ 4.21 bn in the same period of 2014 – 15.

The Asian Development Bank (ADB) has approved a credit line of \$ 600 mn to be released in two halves for structural reforms of public sector enterprises.

The International Monetary Fund (IMF) while appreciating economic improvement at the macro level has urged the government to undertake structural reforms to consolidate gains achieved in the interest of long – term sustainable growth.

Export earnings (PBS f.o.b. data) of non-textile products during July – May 2015 – 16 fell to \$ 7.68 bn against \$ 9.48 bn in the same period of 2014 – 15.

The government has withdrawn the levy of federal excise duty (FED) on transactions of the services sector.

The Water and Power Development Authority (WAPDA) has raised Rs. 100 bn through issuance of an Islamic bond for the completion of the 969 MWs Neelum – Jhelum hydro-power run-of-the- river project to be fully operational in phases by end – 2017. The Shariah compliant bond is the biggest in the country's history.

International

In the national Referendum in the U.K. held on June 23, 2016 on whether Britain should remain a member of the 28 nation European Union (EU) or seek separation from it, having joined it 43 years ago, the 46 million eligible voters voted that Britain

should exit from it (Brexit) with a majority of 53%, or over one million votes. Some of the fall-out effects have been as under:

- the Prime Minister who was against Brexit has decided to step-down by October when a new party leader is chosen;
- world stocks tumbled across Europe including the U.K itself, Asia, the U.S. and even in parts of Africa, pruning stock values by over \$ 2.1 trillion;
- the Pound Sterling lost exchange rates forcing the Bank of England to intervene and thus recouping some lost ground;
- immigration and the refugee crisis were the main bones of contention in the Referendum;
- the First Minister of Scotland has threatened to veto the exit and thus force a repeat Referendum as 62 % of Scots voted in favour of remaining in the EU. She has also informed the EU Secretariat for continued membership of the EU bloc;
- the heads of the now 27-nation governments of the EU are seeking to expedite the exit decision rather than allow the full 2-year cycle as ordained by the Lisbon Treaty when Britain opted to join the bloc.

The First Minister of Scotland has resolved to seek a repeat of the referendum two and a half years ago in which the Scots had narrowly voted to remain as part of the U.K. The repeat referendum may lead to a different result following the Brexit vote. Northern Ireland may follow suit in favour of joining Ireland.



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