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‘Pandemic unlikely to have big impact on banks’ assets quality’

KARACHI: Banks are unlikely to incur large losses from loans to businesses in the commodities sector as these industries continue to be supported by demand, despite the coronavirus crisis which has brought the economy to a sudden halt, JS Bank Limited CEO Basir Shamsie said.

“As far as the corporate and commercial borrowers are concerned, basic commodity players, like food products, rice, wheat, sugar and edible oil will continue to operate as they are need-based products,” Shamsie said in an email interview with The News.

“As we move up the curve, we get into the demand side for exporters. While there has been impact across the board, the garment industry has faced challenges. At the same time, the home textile segment, which constitutes a large chunk of exports, is relatively better off versus other garment offerings,” the CEO added.

Other segments such as real estate would also be impacted, but as mentioned earlier, Pakistani banks have limited exposure in these segments, he noted.

“Other sectors like the automobile industry and other manufacturers are witnessing slow supply and demand,” he said, adding that if the lockdowns were to persist, these organisations would struggle to keep up their debt payments along with a host of others.

However, it was too early to call at present because the government has already been considering plans to ease the lockdowns so that economies begin to recover, albeit cautiously.

It is important to mention here that markets as well as some selected businesses reopened on Monday after the government had started easing restrictions related to the coronavirus pandemic. Pakistan’s economy is heading towards a recession with a -1.5 percent contraction predicted for this fiscal year, compared with a before virus forecast of around 3 percent.

Responding to the question of loan payment holidays to borrowers, whose financial position has been badly hit by the COVID-19 outbreak, the bank’s CEO said loan restructuring and rescheduling was an ongoing process especially in these times, the numbers of which were constantly fluctuating.

“Bank lending in Pakistan remains typically corporate and commercial centred. SME’s, which are the hardest hit, have a small share of the lending wallet, and consumer piece including mortgage is limited as compared to corporate lending,” he said.

Unlike other markets where SMEs have a large portion of the overall bank borrowing portfolio, Pakistan’s financial industry had a limited exposure level when it came to small-scale lending, Shamsie said.

About the question that borrowers would not be able to benefit from the loan deferment relief when a large portion of the economy was undocumented, and many individuals and SMEs took loan from informal sources, Shamsie said the segment of the population which received its credit from sources falling outside the remit of the SBP were not able to apply to the various relief measures that the regulatory body has introduced.

However, in the last few years, the availability of easy micro and nano loans from microfinance institutions have enabled a lot of businesses to acquire credit options from SBP sanctioned organisations.

"We have been slowly and surely moving towards a documented economy and there has been an upswing in lending towards segments which typically used to engage informal lending entities such as small scale agriculturalists and livestock."

By May 8, over 1-2 million borrowers had availed the SBP's deferment facility to delay principle payments against their loans to one year. Banks have deferred Rs370 billion principal repayments, while over Rs54 billion has been restructured/rescheduled, according to the SBP's recent tweet.

More than 90 thousand requests are under process with the banks for deferment and restructuring.

He said the SBP and its relief efforts were meant to provide borrowers with a number of alternatives for sustaining their businesses as well as easing

the stress on the economy due to unemployment and dropping productivity.

Many of the measures announced by the SBP like the slash in interest rates, Temporary Economic Financing Facility, hospital and payroll financing options have already been passed on to the consumer and many organisations were availing them at present.

"Banks are giving out loans at discounted rates to ensure that customers can get relief in all relevant areas," he added.

Moody's Investors Service, in its report published last month, said the steps taken by the SBP could mitigate banks' asset quality deterioration amid less business generation and loan growth in an economic slowdown.

The rating agency said top five banks of the country would benefit from high level of government support, which would shield their credit profiles from impairment of their standalone credit assessments.

The SBP reduced the capital conservation buffer (CCB) to 1.5 percent that would free up Rs800 billion of capital or 10 percent of outstanding loans, according to the SBP's estimate. The lower CCB will support banks' lending activities, but create potential asset quality pressure, the Moody's report noted.

Asset quality of the banking sector weakened during the first half of 2019. Banks' non-performing loans rose 13 percent to Rs768 billion by end June 2019, the central bank's mid-year performance review of the banking sector for January-June revealed.