Banks feel the heat of Naya Pakistan

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ON Sept 19, Pakistan`s foreign exchange reserves fell to $9.03 billion, not enough to cover even two months of imports, from $9.79bn at the end of the last fiscal year. The decline of $753 million or 7.7 per cent in reserves in less than three months comes on the heels of less-than-desired growth in exports and remittances amid large import bills and a big current account deficit.

In July-August, combined earnings via exports of goods and services and remittances totalled $8.921bn, according to the balance of payments (BoP) statement. Against this, imports of goods and services consumed $11.579bn. So a huge gap of $2.66bn existed even if we count on both exports and remittances to finance our total imports. The current account deficit stood at $2.72bn. The overall BoP witnessed a gap of $430m. The rupee has lost 2.26pc of its value against the dollar in the interbank market in less than three months of this fiscal year (up to Sept 27).

The PTl government is trying to shape up the BoP with thicker flows of foreign investment, including a strategic Saudi investment in the China-Pakistan Economic Corridor (CPEC), while keeping its focus on exports and investment intact.

Meanwhile, it is also keeping the International Monetary Fund (IMF) borrowing option open.

However, indicators show that currently the external account situation is far from promising.

On the fiscal side, deep cuts announced in development funding for 2018-19 are sure to slow down economic growth, which might affect private-sector credit appetite.

To fight inflation and keep the rupee from falling too fast, the State Bank of Pakistan (SBP) has already tightened interest rates and further tightening is expected.

But far from the madding crowd of the forces at play in the local interest and exchange rates regime, private-sector credit and government borrowing from banks, upheaval in foreign exchange markets of emerging economies and theUS-Chinatrade war with implications on the CPEC, banks are busy doing things they normally don`t do not at least at the current scale and speed.

From heads of banks to senior and mid-tier executives to officers posted at branches, all are busier than before. Their cell phones keep ringing; new emails keep popping up and every now and then some forwarded or direct messages flash on their WhatsApp screens. Internal computer servers and internal landline phone extensions get chocked more often.

They are mining evidence from thousands of bank accounts on instructions from the federal government, apex court, National Accountability Bureau, Assets Recovery Unit, Federal Board of Revenue, Federal Investigation Agency and others. Evidence of money laundering, wealth concealment, capital flight, misdeclaration in external trade documents, fake accounts, fabricated statements of income and misuse of public funds is badly needed.

On such evidence, the fate of politicians facing trials or investigations hinges, hopes for building a self-reliant Naya Pakistan rely and foundations of impenetrable regulatory firewalls rest.

Apart from evidence collection for alleged financial wrongdoings of former premier Nawaz Sharif and former president Asif Zardari, they are also screening accounts of many less prominent politically exposed persons, businessmen and bureaucrats in line with the orders received from their own regulators or other state institutions.

`Banks are doing all this, but it`s not a chaotic situation.

Normal banking business is going on uninterrupted,` asserts a senior executive of the state-run National Bank of Pakistan.

His juniors, however, complain about extra hard work, adding that things become too difficult in some cases where officers working on certain assignments lack expertise. Seeking outside support is impossible due to both the sensitivity of assignments and banks` own guidelines regarding work franchising.

Executives and officers of other banks, including HabibBank, United Bank, Allied Bank, MCB Bank, Askari Bank, Bank Alfalah and JS Bank, say work life for many bankers has become tougher. In addition to filing periodical regulatory compliance reports to the SBP a dozen a month in many cases they are now tasked with collecting and collating from bank branches several sets of information on foreign exchange dealing, suspicious activities in bank accounts, information related to credit approvals that took place years ago and even more.

Several departments of banks are involved in such tasks: legal affairs, compliance, treasury, assets and liabilities committees, secretariat of the board of directors, president`s secretariat, regional and zonal offices and IT and cyber security.

Bankers who are actually sifting through records, checking and re-checking them for ascertaining facts or ensuring regulatory compliance or implementing courts` directives have their own lines of reporting. `Inter-departmental criss-cross, deadline pressures, prioritising issues and a lack of expertise in handling certain issues give headaches to most junior team members,` complains a junior executive of Habib Bank.

Meanwhile, with a revised budget for 2018-19, business entities have started forming views on the future course of the economy and are readjusting their bank borrowings accordingly. Senior bankers say credit demand from industrial, trade and SME sectors has so far not shown any signs of weakening, but consumer demand has.

Foreign currency accounts of banks continue to grow partly due to effective controls on money laundering. Many banks sitting on lots of foreign exchange deposits are regularly selling dollars in the interbank market under arrangements designed by the SBP to keep the rupee from falling. Foreign exchange companies are under greater scrutiny of law enforcement agencies with regard to their role in money laundering and they are not able to sell as much foreign exchange to banks as before, bankers say.m

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