
CPEC and Capacity of Banking Sector

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Abstract:

China-Pakistan economic corridor is the potential project that enhances local connectivity, industrialization, financial cooperation, trade and commerce, infrastructure, tourism, the solidity of the region and so on and so forth. It is beneficial for not only Pakistan and China but will have the constructive impact on Afghanistan, Iran, India and the linked region. On one hand CPEC is opening great opportunities for Pakistan to flourish their business, industries, and trade, but on the other hand, it is also a challenge for Pakistan in many aspects of law and order situation, regional conflicts, local financing and capacity of the banking sector. In this report, the capacity of the banking sector of Pakistan is deeply analyzed with the stances of different banks on CPEC and what role State Bank is playing in this venture. Further, this report critically analyzes the problems banking sector is currently facing and what measure they can take to overcome issues and invest in CPEC projects actively.

Keywords: CPEC, China-Pakistan relations, Banking sector, Capacity of Banks, Investment in CPEC projects

Introduction:

In February 2006, President Parvez Musharraf poetically described the Pak-China friendship in Pak-China Business Forum as “deeper than the ocean and higher than the mountain”. Pakistan regards China as “all-weather friend”. China has developed as Pakistan’s major trade partner. Pakistan and China have developed bilateral trade relations in January 1963. China-Pakistan Free Trade Agreement (CPFTA) was signed on November 24, 2006, implemented in mid of 2007 which covers trade of different goods and investments. The volume of trade in 2012-13 was 9.2 billion which was all time high showed an increase of 124% (Finance, 2014).

China-Pakistan economic corridor will strengthen the relationship between both countries. The corridor will connect Gwadar port Balochistan (Pakistan) to Kashgar (China). It will serve as a gateway for trade between China, Middle East, and Africa. It will cut 12000 kilometers of the route taken by the oil supply of Middle East to China. This mega project will not only start trade in Balochistan but it will make Gwadar as an important port of the region. The operations of Gwadar port had been transferred to China Overseas Ports Holding in Feb 2013. It is expected to complete by 2030. However, the related projects like motorways and energy projects will be completed by 2017-2018 (Sial).

It is a comprehensive project which includes 2700 kilometers’ highway from Gwadar port to Kashgar through Khunjerab. Railway link from Gwadar to Kashgar with possible linkage with Afghanistan, India, and Iran and Karachi-Lahore motorway. Energy Planning Working Group will make sure to start power projects for the rapid completion of CPEC. 21,690 MW power projects will be started with the collaboration of China (Sial).

Main text

1.1 CPEC IMPACT ON PAKISTAN DIFFERENT SECTOR

1.1.1 Pakistan and china:

Basically, the idea of Silk Road was rephrased by china in 2013 under “one road, one belt”. Pakistan and China are the partner as it links China to the Central Asia, major deep-sea port Gwadar direct link to the Indian Ocean and far away. China-Pakistan economic corridor (CPEC) is the new model of china and Pakistan which will remove the backdrop of complex and changes coming in the regional and international situations. As both countries are having the common interest so they are working to improve their strategic communication and coordination.

China is becoming the trading partner with Pakistan in the terms of import and export. Because china and Pakistan had also developed the strong bilateral trade and the economic ties from many years. Commercial links and bilateral trade were established between these two countries china and Pakistan in January 1963 when they signed the first bilateral long-

term agreement. And after than on November 24, 2006, both countries signed the free trade agreement (FTA) and which will be implemented from July 1, 2007. And then they also signed on the FTA on trade in services on February 21, 2009, that was implemented on October 10 that year.

CPEC is the biggest project which is under construction and after its construction it will achieve its political and economical objective through the trade and development. and it will also help in creating regional stability in south Asia.

And after the completion of CPEC, it will function as a primary gateway for trade between China and Africa and the middle east.

1.1.2 Challenges for CPEC:

In addition, due to the CPEC Pakistan needs to face many challenges regarding the politics, administration issues and security issues are some of the great problems/ challenges that Pakistan needs to face.

CPEC is the biggest project which will definitely let the Pakistan economy so high because of this the few of the countries has become so unhappy like Indi Israel and the US they are against this big project so together they are making a plan to somehow dissolve or to destroy this project. Infect, India is trying its best to vanish this plan so RAW has opened a special office in DELHI and have \$300 million to disrupt CPEC.

On the other hand, the main problem is the political parties of Pakistan like ANP, Baloch nationalists, PkMAP has raised the serious issues for the CPEC PROJECT. In fact PTI and JUI (F) also raised the issue that the CPEC project should provide equal opportunities to all provinces.

Mark Grossman U.S special representative to Afghanistan and Pakistan said that “even bigger challenge is rule of law. Yes, security situation is a challenge” (McBride, 2015).



1.1.3 BALOCHISTAN FACTOR FOR CPEC:

BALOCHISTAN is one of the beautiful provinces of Pakistan and located at the surprising location and become the official greatest trade center of Pakistan. It is the largest province constitute approx. 43.6% part of the total area of Pakistan but has the smallest population of 10 million (1998 Census) (Explore Balochistan, n.d.). Balochistan is the richest province because of vast mineral resources (Karim, 2017). The world's great trade routes are passing through the deep-water port of Gwadar with the city of Kashgar. The main issue is that Baloch did not want this project in Gwadar because due to this project the trade will become in power and the outsider will also come or move in and it will disturb the demographic balance even further against the Balochs. So, to avoid this they are making many issues like to stop this they have attacked some of the Chinese engineers who are working there.

According to the report of Pakistan Social and Living Standards Measurement (PSLM) 2014-2015 conducted by Bureau of Statistics, literacy rate in Balochistan is 44% which is least as compare to other provinces (Statistics, 2014-2015). CPEC will bring massive economic changes in this province of Pakistan particularly so it is the prior need of inhabitants to get educated otherwise they would fail to reap the benefits of CPEC (Karim, 2017).

In Balochistan there so many leaders who are against this project. And don't want to see the CPEC in Pakistan so to avoid this they are doing the kidnappings and the killing of the Chinese workers who are working in Balochistan. Baloch also attacks on the tanker carrying the fuel for the Chinese company working on the mining project

Siddiq baloch: editor of the Balochistan express reported that, "baloch are scared of the investors and developers who are working with the Pakistani government like Chinese."

In addition, this a very important time for the country as Balochistan concerned because of this CPEC project the economy of Pakistan will boost up and it will affect the other countries economy.

1.1.4 Khyber Pakhtunkhwa for CPEC:

Khyber Pakhtunkhwa is also facing some of the political problems because of the political leader in KP. They were not against this project because the original agreement was different but the federal government has changed the agreement and make the few changes like they had to change the route and make the route from the Punjab and because of this, the Punjab will only enjoy the benefit. So, the parties of KPK are arguing that the benefit should be provided equally to all provinces of Pakistan. But they have linked western route followed by building a road from khunjerab to Gwadar via Mianwali, Dera Ismail khan, Dera Ghazi khan and Turbat. But china is interested in working from the eastern route first. And the political party is against changing the original route Gwadar-Kashgar and demanded the government to solve this problem. Because they think that by following the original route will connect the underdeveloped areas of KPK and FATA to the CPEC and will generate the economic

activities but by adopting the new agreement it wouldn't help them to improve their economic conditions.

1.1.5 Security concerns:

Because of these political factors, the spec is facing many problems and it has become a big challenge to complete this because both of the provinces are creating many problems they want the same powers as the Punjab is availing. They want to boost up their economic conditions also that is why they are creating the problems. And because of the Pakistan unstable situations, CPEC implementation is becoming delay day by day.

An arc of militancy stretches from Xinjiang to Gadara consisting of groups like the East Turkestan Islamic Movement (ETIM), Tehreek-e-Taliban Pakistan (TTP), Lashkar-e-Jhangvi (LeJ), Daesh (ISIS), Balochistan Liberation Army (BLA), Balochistan Liberation Front (BLF) and the militant wings of some political parties. These political groups has some enmity with china but rather they are interested in attack the china CPEC project. Specially the America CIA and Indian RAW are supporting these parties to stop the implementation of the CPEC so they provide all the weapons and security to attack the Chinese workers and let them stop their work. And in past few years they also kidnapped and killed the few Chinese workers but Pakistan is making an effort to control this and provide the security to the workers of china and they have announced that the army 10000 is being there to help them and save them. Pakistan had given them the security and army and rangers are providing them and let them work save because this project is very important for the country economy.

1.1.6 CPEC Benefits for Pakistan:

Pakistan has been playing a great role in South Asia after the competition of CPEC the economic and commercial will improve in Pakistan. This will help Pakistan in facing different problems regarding poverty, unemployment, and injustice of underdeveloped province. CPEC is a great opportunity for both countries. The GDP will boost from 274 billion \$ to over 15% by the investment of China. As compared to India-Pakistan enjoying most favorable capital situation by reducing its budget deficit to 4.7% of GDP in 2014 against India 7%. CPEC will be beneficial for all provinces of Pakistan regarding industrial projects, infrastructure, transportation, and energy.

Following are the benefits in CPEC will give Pakistan after its completion.

1.1.7 Overcoming Energy Crisis:

Energy is the basic necessities of any country. Because of the population and industrial demand increase Pakistan is facing a serious energy crisis. In every area of Pakistan, power blackouts are common. WAPDA and K.E are failed to handle this problem. CPEC is the supreme project which helps the country to resolve the energy crisis. Energy available in Pakistan will add an estimated 2% to Pakistan's GDP growth. In the energy sector, project totaling 10400 megawatts had been included in the programmed, which could be completed by 2018. These project would be based on coal, wind, solar and hydro power generation of 16400 MW as well as the transmission system and would be located in all provinces China

would be setting up 10 projects of 6600 MW in Thar desert that transform this remote region into Pakistan energy capital and create a great economic opportunities for the people of Pakistan.

1.1.8 Infrastructure Development:

Another important segment of CPEC is infrastructure development. It includes the development of road, ports, and highway. This project improves the Pakistan's infrastructure connection with other regions like Asia, Europe, Africa. Because of this project the investment and trade barriers. After accumulation of this project. Pakistan will become a modernize country and produce more goods in the market. It is beneficial for agricultural, service industries , small and medium corporations. The Karakoram highway had been identified for the first phase and in 3 years the Khunjerab Havllan –Islamabad section road would be excepted to complete. So, this infrastructure will boost the GDP of Pakistan up to over 20% to 30%.

1.1.9 Removal of Poverty:

CPEC is a project which will change the Pakistan basically, CPEC will make millions of Pakistanis free from poverty. This project enhances the construction of the textile, industrial sector , dams construction, installation of nuclear reactors and developing road and railway line due to this employment rises and because of this GDP rises estimated to 10% to 20%. This will also improve the life of people so these will also a cause removal of poverty.

1.1.10 Peace and Prosperity In Provinces:

CPEC is the most favorable project for both countries. CPEC is a large project which will increase peace and prosperity in Pakistan because it's not that type of project which is based on roads , ports m railway line system and economic stability. Basically, prosperity comes with economic stability which means when the economy is good like employment rises. Energy crises reduce, removal of poverty , illiteracy declines etc. so it will create peace and prosperity in your country. So, it creates positive change in Pakistan.

1.1.11 Economic Development:

CPEC would enhance the economic and as well as industrial activities. It will help to boost the forgiven investments which will help to maintain the economic stability and generate great opportunity for employment growth and due to this GDP rises up to 15% which means that a positive economic change in Pakistan. CPEC bring an enormous change in nation economics and as well as in the grassroots level.

2 Problem Statement:

CPEC is a multi-billion project of worth 51.5 billion USD. The completion of this project will also boost the international trade in Pakistan as after this project Gwadar port will also gather more importance. By the increase of foreign trade, foreign exchange dealing would also be carried on a large scale. CPEC would also give an opportunity to banks for expanding their credit activities. For this purpose, the banking sector would have to expand their current

capacity to absorb this change. Pakistani banks must show a keen interest in investing in CPEC projects so that no foreign bank would be needed to cater services. The major problem of Pakistani banking sector is a non-performing loan. By the end of 2015, Rs.4.6 trillion was a total outstanding credit to non-government sector by commercial banks (Tribune, 2016). Moreover, credit to Government for the budget amounts Rs.7 trillion (Recorder, 2016). This paper will focus on the existing capacity of the banking sector of Pakistan while descriptive analysis of current situation and future orientation of possible outcomes of current decisions.

3 Research Objective:

The purpose of this research is to analyze the capacity and possible expansion of Banking sector in the context of CPEC.

4 Research Question:

What is the existing capacity of Pakistani Banking sector and what changes should be made to finance the CPEC project?

5 Literature Review:

5.1 The role of the banking sector:

Banking Sector plays a crucial role in economic growth and development performance in any economy. In any plan of economic development, capital occupies a position of strategic importance. Allocation of Capital is the one of the major function of the banking sector. Banking sector attracts savers to save and funds enterprises to operate and achieving their goal. Without Banking sector, borrowers would have difficulty in finding lenders i.e. savers. No economic development of sizable magnitude is possible unless there is an adequate degree of capital formation. A very important characteristic of an underdeveloped economy is a deficiency of capital which is the result of insufficient savings made by the community. Backward economies hardly save 5% of the national income, whereas they should save and invest at least 15%. (Seth).



The role of banks in removing the deficiency of capital:

- They prepare stores by offering appealing rates of plotting, subsequently changing over reserve funds, which generally would have stayed inactive, into dynamic capital.
- They disperse these reserve funds through advances among undertakings which are associated with monetary improvement. Along these lines, they advance the improvement of farming industry, exchange, and industry.
- Following are the means to accomplish the money related development of Pakistan managing an account segment.

1. Convenient arrangement of the store to the monetary functionaries.
2. Advancement of small and medium size industry and arrangement of assets for this reason.
3. Offer motivating force sparing plan to improve the level of sparing of the general public.
4. Uprightness of monetary foundation and lessening of political credits.
5. Enhance integration and enhancement of online facilities to facilitate business community.
6. Widen and develop capital markets by supporting capital market through financing and ability.
7. Enhanced the exhibitions of bank regarding expanding effectiveness (Afreen, 2016)

5.2 The role of State Bank of Pakistan:

The first bank of Pakistan was State Bank which was inaugurated by Quaid-e-Azam on July 1, 1948. Which is also the Central bank of Pakistan. All the scheduled commercial banks of Pakistan run under State Bank. State Bank of Pakistan is a regulator who is proactive in the development of Banking sector of Pakistan. Main roles State bank majorly perform are:

- Development activities to improve the economy.
- Give resources to general public and other organizations.
- Usage of market improvement activities including hazard sharing certifications for SMEs and microfinance areas.
- Limit building and mindfulness programs for banks and customers
- Financing agricultural sector of the economy
- Development of feasible Islamic Banking System.
- State bank has assumed proactive approach and has formulated National Financial Inclusion Strategy (NFIS) via a partnership with World Bank in 2015 as a next five-year plan.

The main objectives of NFIS are as follows:

- Increasing financial opportunities.
- Increasing insurance penetration.
- Fetching retirement pension to more workforce.
- Development of housing finance.
- Development of Islamic Banking.

- Safeguarding consumer safety and increasing financial know how particularly unbanked segments of society (Afreeen, 2016).

In the process of economic development State Bank of Pakistan plays an important role:

5.2.1 The issue of Notes:

State bank of Pakistan has a monopoly in issuing currency notes. 5, 10, 50, 100 rupee notes are issued by the bank on 12 July 1976. Note of 500 rupees was issued on 1st April 1986 and 1000 rupees' note was issued on 18th July 1987. At present note of Rs.5000 is also issued by the state bank of Pakistan. The state bank has three offices of the issue, situated at Karachi, Lahore, and Peshawar.

5.2.2 Banker to the Government:

It is the bank of federal as well as provincial government. Its functions for the Govt. are:

- Bank issued new notes on the behalf of government
- Bank also accepts the government cheques and drafts
- State bank responsible for transferring government funds at international level
- Bank arranges the public debts of federal and provincial government
- Bank receives no commission from the government
- It holds federal and provincial government securities
- State bank is liable for the payment of salaries and pension to government employees.

5.2.3 Banker's Bank:

State bank of Pakistan is the bank of all commercial banks working in Pakistan. SBP started to spend \$ 24.00 million in October 2002, with the assistance of World Bank for data warehousing, networking, application of software and other banking solutions.

- State bank provides loans to commercial banks at the time of need
- Commercial banks re-discount their bills of exchange from state bank
- A state bank can sell, purchase and hold debentures of any banking company or of any other financing corporation.

5.2.4 Clearing House:

State bank of Pakistan acts as the clearing-house for the commercial banks working within the country.

- It shows the financial position of various banks
- Clearing-house helps commercial banks to settle inter-bank transactions
- It reduces the excessive use of cash
- It controls the harmful competition among banks.

5.2.5 Advisor to Government:

State bank of Pakistan works as an advisor to the federal and provincial government.

- It guides the government in financial and economic matters

- State bank assists the government in various credit schemes
- It informs the government about the monetary and fiscal situations of economy
- State bank helps the government in making investments.

5.2.6 Lender of Last Resort:

The state bank of Pakistan also acts as the lender of the last resort for the commercial banks. When commercial banks are in crisis and have a shortage of cash, then state bank comes to their help. State bank may help the commercial banks by rediscounting their bills of exchange and by advancing loans against securities.

5.2.7 The controller of Credit:

A national credit consultative council was set up in 1972 for the purpose of monitoring and controlling credit. Credit and investment are the most important economic and fiscal variable. State bank helps to arrange the credit and investment facilities. State bank has adopted following tools to control credit:

- Open market operation
- Bank rate policy.
- Changes in reserves ratio.
- Changes in margin requirements.
- Change in liquidity ratio.

Moral persuasion and publicity.

5.2.8 Economic Growth:

State bank of Pakistan played a very significant role in the growth of the banking infrastructure. It gives special importance towards the development of capital market in the country. It also provides assistance to the government in development planning and poverty reduction programs. All this results in economic growth and development. Real GDP growth rate is 2.4 % during FY 2010-11.

5.2.9 The growth of Credit Institutions:

State bank builds up the environment for the improvement of credit foundations. Such credit foundations are exceptionally valuable for meeting medium and long haul credit needs of different monetary divisions. These establishments are incorporated HBFC, ICP, NDFC, EPF, NIT, IDBP and ZTBL and so on.

5.2.10 The growth of Money Market:

The currency market is not getting it done the level in Pakistan. Because of ignorance keeping money circumstances are not positive. State banks give much significance in the development and improvement of the currency market. Financial improvement is

incomprehensible without the development of currency market. The development rate of keeping money part is 17.0%.

5.2.11 The value of Rupee:

State bank of Pakistan is in charge of the upkeep of the outer estimation of the rupee. State bank is the controller of swapping scale in the nation. Until September 1971, Pakistani rupee stayed connected to UK Pound and it was de-connected from the pound and connected to US Dollar.

5.2.12 Special Funds for Development:

The major aim of a state bank is not to earn a profit. But its effective working gives him a huge amount of profit. These profits are allocated towards the establishment of various funds for economic progress and prosperity. It established Rural Credit Fund in 1961 and Export Credit Fund in 1972.

5.2.13 Debts Management:

Our rare assets and government strategies are not ready to run the super ventures which required a substantial measure of assets. Because of deficiency of assets government needs to rely on other rich countries. Every one of these plans is the duty of the state bet for the benefit of government.

5.2.14 Foreign Exchange Reserves:

State bank of Pakistan is also the custodian of gold, silver and foreign exchange reserves. It regulates foreign exchange reserve in accordance with foreign exchange Act 1947. Pakistan has a shortage in foreign exchange reserves. Its volume of foreign exchange reserves is only \$12.34 billion in 2007-08. In July 2007, foreign exchange reserves were \$15.646 billion out of which state bank of Pakistan has \$ 4.3213 billion. At present foreign exchange reserves of Pakistan are \$ 17.1 billion.

5.2.15 Exchange Centre and International Relations:

State bank issued licenses to various business banks to hold outside trade. Such permit holders can likewise bargain in remote trade at approved rates. These trade focuses are extremely useful in preparing the assets. State bank of Pakistan keeps up relations with various global monetary organizations, for example, IMF, WBG, and so on. It arranges distinctive contracts with these organizations for the benefit of government (Khan, 2012).

5.3 Existing Capacity of Banking Sector:

According to Mr. Mansoor Ahmed Soomro, Financial Analyst “Pakistani banks have capability but not the ability to realize CPEC projects”. According to banking survey 2014

total assets of large banks in excess of Rs.600 billion. Medium-sized banks have Rs.125 billion of assets. Whereas, Small banks have less than Rs.125 billion assets. While, Islamic Banks only carry out Islamic Banking activities only (Afreeen, 2016). Other than that, ‘Bank credit to bank deposit ratio’¹ is low as compare to lower middle-income group of countries which is an average of 59.08 (see table 1). It shows that Pakistan’s banking sector has the capacity to increase this ratio to level the lower middle-income group countries. But a big hurdle in this venture is banking sector risk. Pakistani banks have a higher level of non-performing loans as the average of all countries income groups (see table 2). It means the risk of lending is greater and banks have the low edge of increasing lending. On the other hand, ‘bank regulatory capital to risk-weighted assets ratio’ is 10%. Which is required by State Bank of Pakistan to all banks from 2009 onwards. But in 2010-2013 the average ratio of ‘bank’s regulatory capital to risk-weighted assets ratio’² was 14.69%, which is quite higher than the required ratio. It means banks have enough edge of capitals to increase loans (see table 2) (Ashraf, 2016).

Sr. no.	Country Name	2010	2011	2012	2013	Average over 2010-2013
Bank credit to bank deposits (%)						
1	High income	105.91	102.16	101.93	102.26	103.06
2	Upper middle income	90.88	93.13	89.53	88.86	90.60
3	Lower middle income	76.65	81.19	81.12	79.28	79.56
4	Pakistan	68.76	62.63	54.56	50.37	59.08
5	Low income	71.77	73.91	81.36	78.73	76.44

Source: Global Financial Development Database of World Bank

Table 1

Sr. no.	Country Name	2010	2011	2012	2013	Average over 2010-2013
Bank nonperforming loans to gross loans (%)						
1	High income	3.95	3.80	3.66	3.60	3.75
2	Upper middle income	3.72	3.61	3.70	3.80	3.71
3	Lower middle income	5.20	4.22	3.67	5.57	4.67
4	Pakistan	14.75	16.21	14.47	12.99	14.60
5	Low income	7.84	6.53	6.80	6.31	6.87
Bank regulatory capital to risk-weighted assets (%)						
1	High income	14.79	14.97	16.00	15.99	15.44
2	Upper middle income	16.87	16.43	16.82	16.11	16.56
3	Lower middle income	16.45	16.05	16.72	17.02	16.56
4	Pakistan	13.97	14.58	15.35	14.85	14.69
5	Low income	20.84	20.04	21.19	22.59	21.16

Source: Global Financial Development Database of World Bank

Table 2

¹ Bank credit to deposit ratio refers to the financial resources provided to the private sector by domestic money banks. These banks comprise of commercial banks and financial institutions that accepts transferrable deposits.

² Risk weighted assets are used to determine the minimum amount of capital that must be held by banks regulatory to lower the risk of insolvency.

<http://www.investopedia.com/terms/r/riskweightedassets.asp>

China-Pakistan economic corridor will open gateways to international trade for Pakistan. It will increase the demand for international trade-related services which will need more non-interest income generating activities³. Pakistan’s banking sector has lower levels of diversification in ‘no- interest income’⁴ generating activities as compare to all other income group countries (see table 3) (Ashraf, 2016).

Sr. no.	Country Name	2010	2011	2012	2013	Average over 2010-2013
<i>Bank noninterest income to total income ratio</i>						
1	High income	34.02	34.82	34.07	33.21	34.03
2	Upper middle income	37.06	35.49	36.50	34.77	35.95
3	Lower middle income	33.04	32.18	34.65	31.65	32.88
4	Pakistan	26.19	24.22	27.74	27.75	26.47
5	Low income	45.56	48.17	45.99	45.60	46.33

Source: Global Financial Development Database of World Bank

Table 1

6 Methodology:

In this paper, a descriptive analysis of the present capacity and capability of Pakistani banking sector and future orientation of CPEC requirement from the banking sector is done. We used secondary data publish in different blogs and reports. The secondary data of interviews of different CEO’s of banks on the view of CPEC are also being cited. Moreover, researchers interviewed Vice President of National Bank of Pakistan Muhammad Javed Hassan and Mr. Mansoor Ahmed Soomro, A financial Analyst.

7 Discussion:

7.1 State Bank’s Vision on CPEC:

On march 25, 2016 Ashraf Mahmood Wathara, Governor State Bank of Pakistan said in the Federation House meeting that “as a World standard practice in a big project like CPEC, expensive loans are kept minimal to get the cheaper ones”. Moreover, commercial banks of China and Pakistan will team up to get a “financial mix” to provide money to debtors. He also said that 6% interest rate is the lowermost in the 42-year history. However, State Bank’s current monetary policy is to support consumer financing more and less to industrial finance (Recorder, 2016).

³ It includes net gains on trade and derivatives, net gains on other securities, net fees and commissions and other operating income.

⁴ Income of banking sector comprised of net interest income plus net non-interest income.

7.2 Commercial Bank's stake on CPEC:

7.2.1 Hussain Lawai (President and CEO of Summit Bank Limited):

Talking to ICMAP Hussain Lawai said that there is vague information about which type of investment and loans would be needed for the project like CPEC. Planning Ministry of Pakistan, as well as China, is also not clear about it. He further said that we will be providing a Tax-Free Zone and 500 workers of China would be coming to Pakistan. He argued that we only know that China will be investing in Sahiwal Power project and a joint venture on Port Qasim. He admitted that our economy has no possible capacity to realize 46 billion dollars.

On the question of SME (Small and medium-sized enterprises) financing. He said that 25% of their total financing comprise of SME's lending (Lawai, 2016).

Summit Bank has capability and proficiency to invest in different projects. It has already contributed in the financing of the building of Hyderabad-Mirpurkhas motorway which has been built by South Korean Construction Company. And further some projects. They are also interested in other projects of energy, telecommunication, and infrastructure to finance in. (Lawai, 2016).

7.2.2 Irfan Siddiqui (President and CEO Meezan Bank):

Talking to ICMAP, Irfan Siddiqui said that CPEC is a game changer for Pakistan's economy and we are well- placed to have profited from it. We are actively participating and dedicated significant contact in financing CPEC projects. He also said that SME's in Pakistan's economy are mostly ignored sector. Meezan bank has a keen approach towards financing SME's. It finances chemical, textile, pharmaceutical, cotton ginning, flour mills and rice husking etc. for efficient risk management. Moreover, he said that Banks of Pakistan are well equipped and capable of providing support to this project to provide local currency liquidity. However, foreign currency financing and long-term funding can be a challenge (Siddiqui, 2016).

7.2.3 Javed Hassan (Vice President National Bank of Pakistan):

Talking to the researchers Javed Hassan said that the major problem banking sector is facing in today's scenario is non-performing loans. They must be recovered first for the financing of CPEC. On the question of CPEC's controversial aspects, he said that we should be positive this project can be a game changer for Pakistan's economy (Hassan, 2016).

7.3 Measures to Increase Banking Sector Capacity:

7.3.1 Branchless Banking:

According to State Bank of Pakistan, 50% of the population is excluded from banking sector (Aurora, 2016). The average of a number of bank branches per 100,000 adults is 8.76 (see Table 4). Which is more or less near to the lower middle-income group countries which are 9.13. However, there are approx. 258 bank accounts per 1000 adults which are relatively

lower than lower middle-income group countries. Which means there are a sufficient number

Sr. no.	Country Name	2010	2011	2012	2013	Average over 2010-2013
Bank branches per 100,000 adults						
1	High income	26.04	25.07	24.37	25.63	25.28
2	Upper middle income	19.58	19.69	19.23	20.33	19.71
3	Lower middle income	8.37	8.64	9.49	10.01	9.13
4	Pakistan	8.38	8.54	8.78	9.33	8.76
5	Low income	2.83	2.64	2.95	3.13	2.88
Bank accounts per 1,000 adults						
1	High income	1239.62	1276.44	1029.39	1172.26	1179.43
2	Upper middle income	697.73	725.10	779.16	766.95	742.24
3	Lower middle income	386.38	433.08	383.56	396.14	399.79
4	Pakistan	233.11	250.99	262.60	288.22	258.73
5	Low income	106.47	114.93	132.18	156.48	127.52

Source: Global Financial Development Database of World Bank

Table 2

of bank branches but a lower number of depositors (Ashraf, 2016).

State bank is fairly aware of this situation of banking sector therefore when they launched the five-year strategic plan in 2015. It emphasized on the banking inclusion of unbanked population via National Financial Inclusion Strategy (NFIS). State Bank proposed that the technique to engage more people in the financial sector is the branchless banking. UBL Omni is the only branchless banking service provided to customers. So, banks should focus on expanding their vision on branchless banking which is formerly occupied by telecom industry (Aurora, 2016).

In the continuation of this development recently National Oil Distributor Pakistan State Oil (PSO) have also been heading to start branchless banking by the cash availability 24 hours on all the pumps across the country by the January 2017. It has partnered with United bank Limited (UBL) (Shadman, 2017).

In this drive Bank Alfalah have also played its part and started self-serving Kiosk in partnership with C Square Consulting by which you can open a digital/wallet account only in 3 minutes by only using you CNIC. These kiosks also offer many other services like cash deposit, PIN generation and activation, bill payments, funds transfer and many more. This is a good initiative which will increase their customer base and obviously the implementation of NFIS. And it will help to those people living in remote areas to financially include in the banking system (Kamran, 2017).

7.3.2 Digital Payment System:

“Pakistani Banks have to introduce next generation financial products” Said Mr. Mansoor Soomro. Many banks have developed their apps but there are security issues due to which customers are not very interested in online banking (Aurora, 2016). According to Mr. Mansoor Soomro, “Banks not only have to improve customer service but they have to satisfy their customers as well”.

7.3.3 Effective Marketing:

To attract more depositor's banks should adopt more effective marketing strategies so that it increases the number of customers (Ashraf, 2016).

7.3.4 Expansion of branches:

In spite of banks have sufficient branches but they are intense in particular regions or areas. So, banks should expand their branches in the remote areas as well (Ashraf, 2016). Recently, in 2016 National Bank of Pakistan has installed an ATM machine on the highest peak of Khunjerab pass, which is also the world record and it is operating in day times (Rehman, 2016). Indeed, it is a good initiative but there is a long road to go. Others banks should also set up the branches to cater the banking need of remote areas.

7.3.5 Approaching Capital Markets to Increase Capital:

Atif Bajwa CEO Bank Alfalah said that Rs.580 to 780 billion will be required for CPEC related projects. Banks should turn to capital markets to increase their capital (Tribune, 2016).

On the other hand, SBP's monetary policy is more focused on consumer finance, so it should also focus more on industrial loans. It will motivate industrialization, thus CPEC too.

7.3.6 Credit Expansion:

Bank's regulatory capital to risk-weighted assets ratio is 10% standard set by SBP. But it was 14.69% between 2010-2013. So, there is a space of credit expansion for banks by decreasing their bank's regulatory capital to risk-weighted assets ratio so that they have more money to lend.

7.3.7 Recovering Non-Performing Loans:

Banks non-performing loans rate are higher than other countries group. So, the credit risk is greater. If this risk is eliminated, then the credit expansion would be easier. Different banks have applied different strategies to recover non-performing outstanding.

- Different banks like Silk Banks and Summit bank has special asset management division to recover NPL's.
- Banks like Meezan Bank deals with default cases by the court and circumstantial cases it finds different ways to recuperate business and recover finances.
- Some banks like Askari Bank follows the recovery of finance ordinance 2001 to recover loans.

8 Conclusion:

In the end, it has been concluded that CPEC is the win-win situation for both the countries. It will start two-way trade which will have a great impact on banking sector since all import and

export will en route through the banking system. Financial Stability report claims that the banking sector of Pakistan has been grown by 16.8% preceding year. Moreover, assets have been increased by 15.1%. Banks should take the initiative of investing in CPEC. Moreover, State bank has been playing a proactive role in the success and finance of this multi-billion-dollar project. However, there are some issues like public debt (non-performing loans) and SBP's monetary policy in financing SME's and industrial loans. Other than that, reducing imports and increasing exports can also add a positive element in the Banking Sector. Fluctuations in exchange rates and its availability are also the problem in this cluster that should be addressed. According to Mr. Mansoor. Since 1.5% of growth has seen in the GDP of Pakistan. It is a good sign and CPEC will also increase the GDP of Pakistan and cost of operations would be minimize once inflation lowers.

List of abbreviations

CPEC	China–Pakistan Economic Corridor
GDP	Gross domestic product
CPFTA	China-Pakistan Free Trade Agreement
WPDA	Water & Power Development Authority
K.E	K-Electric
KPK	Khyber Pakhtunkhwa
FATA	Federally Administered Tribal Area

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