

**"Impact of Basel II on Credit Risk in
Pakistani Banks"**



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ABSTRACT

Banking sector today is under immense pressure to sustain the economy and improve regulatory measures. BASEL I was introduced but it had its own shortcomings and limitations. Now State Bank of Pakistan has asked certain Pakistani banks and DFI to implement BASEL II.

It is a regulatory frame work and State Bank has hired certain consultants to work on it. The basic motivation comes from an interest in banking sector and regulatory reforms.

The scope of the research work is to see aims to see whether BASEL II would benefit the credit risk in Pakistani banks or not. The costs of implementatation would be high and certain banks have been asked to increase their capital ratio. Some banks were taken as sample out of the whole population and studied. It was found that some banks may find it difficult to meet the requirements and may go for restructuring. The banks with higher capital base did not have any problems.

The research focuses on how Pakistani banks will benefit from this approach. Certain banks find it difficult to implement such regulatory measures, as it will drive them out of competition. In the end the recommendation is that however costly it is, for banking sector improved performance, Pakistani banks and DFI will have to go for this supervisory measure.

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